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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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## HEARINGS

BEFORE THE

SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

FIRST SESSION

ON

SCOPE OF SOVIET ACTIVITY IN THE  
UNITED STATES

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MARCH 29, APRIL 2 AND 3, AND AUGUST 15, 1957

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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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FRIDAY, MARCH 29, 1957

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY ACT  
AND OTHER INTERNAL SECURITY LAWS  
OF THE COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to call at 10:30 a. m., in room 124, Senate Office Building, Senator Johnston presiding.

Also present: William A. Rusher, associate counsel.

Senator JOHNSTON. The subcommittee will come to order. The attorney has some papers I think he wishes to put in the record at this time.

Mr. RUSHER. Thank you Senator. In connection with our hearing a few weeks ago with Alexander Orlov who testified concerning Spanish gold which had been stolen by the Soviet Government and retained by it, I would like to offer for the public record this article from U. S. News & World Report dated March 29, 1957, pages 110 and 111 entitled, "Weapon of Gold."

Senator JOHNSTON. This article from U. S. News & World Report will become a part of the record.

Mr. RUSHER. That is all, Senator.

(The article referred to may be found in pt. 51 of the subcommittee's publications on Scope of Soviet Activity in the United States, at p. 3472.)

Senator JOHNSTON. As we open this hearing this morning, I want to make this brief statement.

In the course of its continuing study of the technique by which the Soviet Government imposes its will upon the peoples of the world, the Internal Security Subcommittee is naturally interested in the story of the political prisoners of communism and the vast concentration camps in which they are kept. Similarly, the subcommittee is interested in the way in which non-Russian populations have been compelled by force to associate themselves with the Soviet Russian system.

Our witness today may be able to shed light on both of these subjects, since he is a Hungarian who has spent over 10 years of life in the concentration camps of the Soviet Union. So you may proceed with the witness. I assume we have an interpreter.

Mr. RUSHER. We do, Senator, since the witness speaks only Hungarian.

## TESTIMONY OF GEORGE BATORI; INTERPRETER, ARTHUR DOBOZY

Will you give your name and be sworn?

The INTERPRETER. Arthur Dobozy.

Senator JOHNSTON. Will you please raise your right hand and be sworn. Do you solemnly swear that you will truly interpret to the witness the questions directed to him and will truly interpret the answers given by the witness to the best of your ability, so help you God?

The INTERPRETER. I do.

Senator JOHNSTON. For the record, you do thoroughly understand the language that he will be speaking today, do you not?

The INTERPRETER. I do.

Mr. RUSHER. All right now, will the witness be sworn and you interpret the oath to him, please.

(The witness stood and raised his right hand to be sworn.)

Senator JOHNSTON. Do you solemnly swear that the evidence that you give to this subcommittee of the Committee on the Judiciary of the United States Senate to be the truth, the whole truth, and nothing but the truth, so help you God?

(The witness nodded affirmatively.)

Mr. RUSHER. And now, Senator, the witness has asked to use the name George Batori in this hearing although the subcommittee has his real name. That is spelled George B-a-t-o-r-i, that is correct?

The INTERPRETER. Right.

Senator JOHNSTON. I imagine that fictitious name is being used for the purpose of keeping him concealed?

Mr. RUSHER. That is correct, Senator. He has relatives behind the Iron Curtain and wishes to use an assumed name.

Mr. Batori, when and where were you born?

The INTERPRETER. September 6, 1915. In Hasszuzfalu.

Mr. RUSHER. Is that in Hungary?

The INTERPRETER. No, in Transylvania, formerly in Hungary.

Mr. RUSHER. Are you a Hungarian citizen?

The INTERPRETER. Yes.

Mr. RUSHER. Did you serve in the Hungarian Army during the Second World War?

The INTERPRETER. Yes.

Mr. RUSHER. What was your rank?

The INTERPRETER. His last rank was captain.

Mr. RUSHER. Captain in the Hungarian Army during the Second World War?

The INTERPRETER. Yes.

Mr. RUSHER. What happened to you after the war ended?

The INTERPRETER. He went home and there he was awaited by some person from the Soviet police.

Mr. RUSHER. What did they do?

The INTERPRETER. They did not permit him to speak to his family. He was arrested and was accompanied to NKVD station.

Mr. RUSHER. Briefly can you tell us what he was charged with and then what was then done about the charge?

The INTERPRETER. He was accused of being a member of the Fascist army; that he killed Russians; and that he has prevented the spread of communism in Hungary.



Mr. RUSHER. The charge was that he was a Fascist because——

The INTERPRETER. That he served in the Fascist army.

Mr. RUSHER. That he served in the Fascist army—that is the Hungarian Army in the Second World War?

The INTERPRETER. That he killed Russians, too.

Mr. RUSHER. And then that he prevented the spread of communism in Hungary?

The INTERPRETER. Yes.

Senator JOHNSTON. Did they arrest all the soldiers that had been in the army?

The INTERPRETER. No.

Senator JOHNSTON. Did you notice in picking them out, why they were picking some and leaving others?

The INTERPRETER. Yes, he does. Those in whom the regime did not have any confidence. Those were the ones that were arrested.

Mr. RUSHER. That would be to say the anti-Communists, generally speaking?

The INTERPRETER. Yes, anti-Communist elements.

Mr. RUSHER. Mr. Dobozy, if you can remember please use the first person and then it will be as coming from the witness.

The INTERPRETER. All right.

Mr. RUSHER. Mr. Batori, were you then tried and sentenced for these alleged crimes?

The INTERPRETER. Yes, I was.

Mr. RUSHER. And what was your sentence and when was it begun?

The INTERPRETER. End of May 1945 he was sentenced to death. His sentence was later commuted to 20 years in prison and enforced labor.

Senator JOHNSTON. What kind of trial did they give you?

The INTERPRETER. I was accused of the same thing which we have discussed before. I have denied these. Now the following happened:

The judge asked me who was the commander in chief of the army. I answered Nicholas Horthy. Then they asked me did Horthy fight against the Communists? I answered yes he did in 1919. The answer was if the commander in chief of the army was a Fascist then the members of the army must have been Fascists too. You see, we are Communists because our chief Stalin and Lenin were Communists, so we are all Communists.

To the question whether I killed Russians, the following happened:

They asked me whether I was on the front and what did I do there. I said I fought. And they asked what did you fight with—with flowers? I answered no, I had weapon. If you had weapons you must have fired them. Yes, I did. I had to defend my country. Well, if you did then fire you must have killed Russians and as far as I know you must have been a good soldier because you have been wounded and you are very nicely decorated—medals.

Mr. RUSHER. So this was the type of trial he had—it was established that he had fired at Russian soldiers?

Senator JOHNSTON. Did they have any jury?

The INTERPRETER. There was a judge and two members of the jury—that is, a prosecutor, not a judge. So the prosecutor was a man who was familiar with law, but the other two were just members from the army, but the main thing was that they were Communists.

Senator JOHNSTON. Were they Hungarians?

The INTERPRETER. They were Russians. One was a Russian and the other was a Tadjik and the third one he couldn't establish.

Senator JOHNSTON. How long was this after the war?

The INTERPRETER. Middle of May 1945 about 2 weeks after the war ended.

Mr. RUSHER. Now, Mr. Batori, your sentence was served in the Soviet Union primarily, is that correct?

The INTERPRETER. Yes.

Mr. RUSHER. Was it all in one prison camp or are there several?

The INTERPRETER. Many camps.

Mr. RUSHER. Now, would you go to this map, which I realize is not perhaps as it might be for the purpose, and show us as best you can the places in the Soviet Union in which you were imprisoned, in the order in which you were imprisoned in them?

The INTERPRETER [witness indicating on the map]. I was sentenced in Rumania end of May 1945. Then I was transported into the prison at Odessa. There I was for 9 days in the death chamber.

Mr. RUSHER. The death chamber?

The INTERPRETER. Yes, death chamber.

Senator JOHNSTON. Was there any reason for transferring you from one camp to another?

The INTERPRETER. The prisons were too full in Odessa. The prisons were full of prisoners from Germany, Hungary, and Rumania. From Odessa—sentence was changed into 20 years imprisonment—then I was transferred to Kazan. From Kazan I was transported to Sverdlovsk where a railroad line was built.

Senator JOHNSTON. How were you transported from one place to another?

The INTERPRETER. They have special trains for transporting prisoners. They have cages in them. In one cage there are about from 12 to 15 men pressed in so that they cannot lie down or sit down. It is almost impossible to relate what they had to suffer.

Mr. RUSHER. Was—what is the name of these cars that they are carried in?

The INTERPRETER. Salipinsky.

Mr. RUSHER. Are these in effect boxcars then?

The INTERPRETER. They are originally boxcars which are transformed into these transport cars for prisoners.

Mr. RUSHER. They have bars?

The INTERPRETER. Inside are iron plates. And so that the guard can always observe what happens in the car, each car has several guards and one of the guards is in the middle of the car in a separate cage watching the prisoners.

Mr. RUSHER. From the last place that you indicated on the map, where did you go?

The INTERPRETER. Then I was transported to Vorkuta.

Mr. RUSHER. I think, Senator, that Vorkuta is one of the most famous of the prison camps. Go ahead, Mr. Batori.

The INTERPRETER. Then we went back to Sverdlovsk. From Sverdlovsk we went to Omsk. From Omsk we were transported to Irkutsk. That was in 1950 when a special camp was established for political prisoners. In 1953 I was transported back to Omsk. From Omsk



again I was transported to Dzoeskazgam—it is not marked on there but it is in the vicinity of Karaganda.

Then from Karaganda we were transported back to Mordovia.

Mr. RUSHER. Spell that, please.

The INTERPRETER. M-o-r-d-o-v-i-a. That is the autonomous Republic of the Mordvinians. That was in October 1950 and then we were told that we would be turned over to the Hungarian authorities.

Mr. RUSHER. And were you?

The INTERPRETER. We were. On November 18 we were turned over to the Hungarian authorities.

Mr. RUSHER. 1950?

The INTERPRETER. 1950.

Mr. RUSHER. And thereafter did you stay in Hungary until the revolution?

The INTERPRETER. Yes. Seven months I was in prison.

Mr. RUSHER. In Hungary?

The INTERPRETER. In Hungary after my return. On June 1, 1956, I was released from prison.

Mr. RUSHER. And then he escaped from Hungary in the revolutionary disorders after October 23, is that right?

The INTERPRETER. Yes.

Mr. RUSHER. When did you arrive in the United States?

The INTERPRETER. On December 3 I escaped.

Mr. RUSHER. From Hungary?

The INTERPRETER. From Hungary.

Mr. RUSHER. When did you arrive in the United States?

The INTERPRETER. On March 10, 1957.

Mr. RUSHER. March 10? All right now, I think we are through with the map for the time being. You may resume your seat.

What was the reason—if there was a single reason for your moving, since this was over a period of 10 years I understand, but nevertheless you were moved. What was the reason for being moved from these various places?

The INTERPRETER. Partly because the Russians feared that some of the people who were antagonistic to their regime would escape or would make propaganda among the other prisoners. So they changed them frequently.

Mr. RUSHER. By keeping them moving they prevented them from organizing among themselves?

The INTERPRETER. Yes. Secondly, the prisoners were used for forced labor within the 5-year plan for building railroads and other public works.

Mr. RUSHER. Did you have a question, Senator?

Senator JOHNSON. I was going to ask him what type of work?

Mr. RUSHER. If I may develop that in this way, Senator.

I would like to discuss now, Mr. Batori, some typical one of these prison camps that you were in. Is there any one that occurs to you as being reasonably typical of the whole series and we can talk about specifically? Will you suggest one now, if you can?

The INTERPRETER. I will talk about the camp near Tayshet.

Mr. RUSHER. And was that the name of the camp itself or was that the town near which the camp was located?

The INTERPRETER. No; there is a town like that, but the camp was also called by the same name.

Mr. RUSHER. How many people would you say were imprisoned in this camp at Tayshet at the time you were there?

The INTERPRETER. I estimate the number of prisoners to be 300,000 to 350,000.

Mr. RUSHER. Between 300,000 and 350,000 in this particular camp?

The INTERPRETER. Yes, in this particular camp. They have about 400 various little camps, each containing a number of prisoners.

Mr. RUSHER. In other words, the overall camp was broken down into subcamps; would that be correct?

The INTERPRETER. Yes.

Mr. RUSHER. And there were about 400 subcamps?

The INTERPRETER. Four hundred subcamps.

Mr. RUSHER. Would that be somewhat less than 1,000 people in a given subcamp? Is that correct?

The INTERPRETER. No; in these subdivisions they have kept about from 500 to 4,000 prisoners.

Mr. RUSHER. It would fluctuate?

The INTERPRETER. Yes.

Mr. RUSHER. How many of these prisoners would you estimate were purely political as distinguished from criminals?

The INTERPRETER. About 300,000 political prisoners. The rest were being kept for some other reason.

Mr. RUSHER. Now these, can you give us a description of their nationality and ethnic breakdown? How many were Great Russians and how many Ukrainians, and so forth?

The INTERPRETER. About 15 percent Russians.

Mr. RUSHER. Fifteen—Yes.

The INTERPRETER. Fifteen Ukrainians.

Mr. RUSHER. Same about Ukainians?

The INTERPRETER. Yes; 10 percent Caucasians, Georgians. 20 percent from the Baltics.

Mr. RUSHER. Baltic States?

The INTERPRETER. Baltics—Estonians, Latvians, Lithuanians and the rest Poles, Germans, Hungarians, and Japanese, and Koreans.

Senator JOHNSTON. How do you go about making this estimate? You were a prisoner, how did you know that?

The INTERPRETER. In these subdivisions there were divided about the same way in almost all the subdivisions, the nationalities. We knew exactly the percentage of Russians and non-Russians. They had a purpose in keeping these divisions of nationalities so that not too many would be of one nationality in the group so they couldn't organize.

Mr. RUSHER. So they kept a cross section in each subcamp, so to speak?

The INTERPRETER. Yes.

Mr. RUSHER. Did you associate, in the course of the labor that they caused you to do, did you have a chance to see these other prisoners and know what their nationality was?

The INTERPRETER. Not only during the work, but also while he was in prison and afterwards.

Senator JOHNSTON. Were they all male or part female?

The INTERPRETER. Up to 1950 men and women were together in camps. After 1950 only men were in the camps.

Senator JOHNSTON. About what percent were men and about what percent were women?

The INTERPRETER. About 30 percent were women and 70 percent were men.

Mr. RUSHER. If I understand your testimony, Mr. Batori, you do not mean to say that after 1950 there were no women as prisoners. You mean up to 1950 they were together and after that they were separated?

The INTERPRETER. After 1950 they were in separate camps.

Mr. RUSHER. Let me see if I understand. Until 1950 they were actually thrown together in the very same camps and barracks?

The INTERPRETER. Yes; after 1950 there were separate camps established for men and women.

Mr. RUSHER. Go ahead.

The INTERPRETER. I wish to mention that after 1950, I was in a camp of political prisoners.

Mr. RUSHER. Strictly political?

The INTERPRETER. Strictly political prisoners where no women were kept, but I know of camps where even after 1950 men and women were kept in the same camp.

Mr. RUSHER. Can you describe a little bit of the conditions that developed as a result of this situation where they were all thrown together?

The INTERPRETER. Men and women were put together in camps in the hope that the losses which were suffered during the war would be in this repaired.

Mr. RUSHER. In other words that children would be born?

The INTERPRETER. Yes.

Mr. RUSHER. What happened to the children that were born?

The INTERPRETER. After 2 or 3 months after birth the children and babies were taken away from the mothers and turned into institutions and the mothers never knew anymore what happened to them.

Mr. RUSHER. And they were raised as Communist Soviet children. Is that right?

The INTERPRETER. Yes.

Senator JOHNSTON. Did most of the women have babies?

The INTERPRETER. The women in the camp were at the mercy of the guards and other personnel so that any of them that was good looking, they could not escape. Nor did they have any opportunity to get rid of the babies.

Mr. RUSHER. Now I want to go back for just a moment for one of the figures you mentioned there. As I understand it only 15 percent, roughly speaking, of the people in these camps there were ethnic Russians; 85 percent were from what might be called the border populations around the Russian land center. Is that correct and, if so, does that indicate that there is a disproportionately low number of ethnic Russians in these camps?

The INTERPRETER. Yes.

Mr. RUSHER. Go right ahead, please. Did you answer?

The INTERPRETER. Yes.

Mr. RUSHER. That is the case?

The INTERPRETER. Yes.

Mr. RUSHER. Does that indicate that, politically, these other nationalities were less reliable from the Soviet standpoint than the Russians? Is that your experience, can you tell? Can you tell us something about that from your own knowledge?

The INTERPRETER. They are not reliable. I was locked up with many representatives of the various nationalities of Russia—Ukrainians, Lithuanians, Georgians, Finns, Chuvvas, Bashkirs, Mordvinians, Chechens.

Mr. RUSHER. Now, Mr. Batori, I would like to ask you a little bit more about conditions in these camps. Was there enough food?

The INTERPRETER. No. Up to 1953 we were always suffering hunger. It is hard to picture what it means to live for years in hunger and during this time one almost becomes an animal.

Mr. RUSHER. One almost becomes an animal?

The INTERPRETER. Yes; one almost becomes an animal.

Mr. RUSHER. Were pests in these camps?

The INTERPRETER. Many. Up to 1950 they were full of lice in the camps. In 1950 they cleaned that out, but even after that they were full of bad bugs.

Mr. RUSHER. Were there animals running around the camps, as well?

The INTERPRETER. Yes.

Mr. RUSHER. Can you give us any particular illustrations of the effects of this policy of more or less starvation, or any particular instances that you know of?

The INTERPRETER. Yes. I was a witness at one of the trials, where it developed that some men had eaten another man in their hunger.

Mr. RUSHER. That prisoners in the camp had eaten one of the other prisoners?

The INTERPRETER. A prisoner ate another prisoner.

Mr. RUSHER. Will you tell us in some detail about that?

The INTERPRETER. Four of us were working in a part of the camp where they were drying clothes.

Mr. RUSHER. Drying clothes?

The INTERPRETER. Drying clothes; yes. Two Russians, one Tadjik, and myself. My job was to cut wood and bring it to the fireplace. And it was also my job to get their food for these four men. I forgot to say that in the evenings we had been visited by a man, Avram Avramovitch, of Jewish origin, who was from Leningrad and who came there to warm himself in the evening. At that time I didn't speak Russian yet, but I spoke German, and I got very friendly with him.

Mr. RUSHER. What time was this?

The INTERPRETER. 1946.

Mr. RUSHER. One morning when they were counting the prisoners they established that one was missing. It was the regular routine in the morning to make a count of the prisoners. The guards were looking for the man; they were looking all over the camp—irons and guns, but they could not find him, so they thought that he must have escaped. At that time it was not unusual that a prisoner escaped, but we were wondering why, since this elderly man who was not of the type we would think that he would escape, that he disappeared.

Mr. RUSHER. Was it this man whom you described earlier?

The INTERPRETER. Yes.



Mr. RUSHER. Avramovitch?

The INTERPRETER. Yes. I was surprised that these three others with whom I was working in that place, while before they were always very hungry and they cleaned out even the pots, now they were very generous and they even donated the soups and everything to me. And I was also surprised that they spoke very often about Avramovitch—I only heard the name; I didn't understand the language, and they quite often laughed when they mentioned his name. After 1 month, one of these men was set free. I got away from the camp, too, and about a year later I was called to a trial.

Mr. RUSHER. In other words, you were shipped away from that particular camp; is that right?

The INTERPRETER. Yes; I was puzzled why they would take me before a judge, but I was taken back to the camp where I was together with these four men. At the place where we worked at this drying place, they began to dig up the place, looking for something.

Mr. RUSHER. Dig up the ground?

The INTERPRETER. The ground.

Mr. RUSHER. Yes.

The INTERPRETER. Then they found the pieces of bone, and I was asked whether I also ate from the flesh of this man. Then I found out the following: These three men killed this Jewish man with an ax. They cooked him and ate him. And what they couldn't eat they hid under the ground. These three men kept quiet, and they made an agreement they would not talk. When this one man was free, it was part of the agreement that the free man would send them food packages from the outside. When these packages did not come, they denounced him because he killed the man. This is how this whole matter came to light.

Mr. RUSHER. How the story happened to come to light?

The INTERPRETER. Yes. My only luck was that—I was very lucky that they themselves acknowledged that I had nothing to do with it.

Mr. RUSHER. Now, Mr. Batori, I want to cover another subject matter for just a moment, please. What was the type of work which you and the other prisoners did in this enormous camp of 300,000 to 350,000 at Tayshet?

The INTERPRETER. Much work was done in the forest in building roads. We worked in mines and in factories.

Mr. RUSHER. Was this same type of work, forestry, roadbuilding, mining, factory work, also done at the other camps, as well as the one at Tayshet?

The INTERPRETER. Yes. The same, even including agriculture, and up to 1950 the production in Siberia was mainly based on this forced labor. In 1950, when the Soviet production gained so much, it was through the work of these prisoners. And when they were running out of prisoners from central Europe then they made such laws that if someone stole the value of, let's say, 2 kilograms of sugar he would be put in camps of forced labor.

Mr. RUSHER. So, actually, this system of slave labor was a major factor in sustaining the Soviet economy; is that correct?

The INTERPRETER. Yes.

Senator JOHNSTON. Now, let's go into that a minute. The camp, you said, was 350,000 in one; is that right?

The INTERPRETER. Yes.

Senator JOHNSTON. How big was that camp?

The INTERPRETER. About 250 kilometers long. It went from Tayshet to Bratsk, a length of 250 kilometers and the width of about 20 kilometers.

Mr. RUSHER. Could you indicate on the map there the area of that particular camp?

The INTERPRETER. Yes. [Witness indicated on the map.]

Senator JOHNSTON. In other words, about 100 miles, speaking in American?

The INTERPRETER. They were building a railroad from where I just showed, to lighten the burden of the Trans-Siberian Railroad. They were building a railroad from Tayshet to Bratsk—over the river, a bridge was built.

Senator JOHNSTON. What is the distance across there?

The INTERPRETER. The railroad that they built was more than 2,000 kilometers long.

Senator JOHNSTON. It is longer than that, isn't it? It must be somewhere in the neighborhood of 1,800 to 2,000 miles.

The INTERPRETER. Two thousand miles?

Senator JOHNSTON. I was going by the scale on the map here; that is what I was using, just roughly speaking.

Mr. RUSHER. Mr. Batori, then the prison camp that you described, in which 300,000 to 350,000 people were kept, really stretched over several hundred square miles, a great number of buildings and barracks, a great colony, in effect?

The INTERPRETER. Yes.

Mr. RUSHER. Do we have the answer?

The INTERPRETER. It spread over several hundred kilometers.

Mr. RUSHER. Square kilometers?

The INTERPRETER. Square kilometers.

Mr. RUSHER. Can you—I don't suppose you had an opportunity to estimate the exact or approximate proportionate effect of this on the Soviet economy. That would be out of your scope?

The INTERPRETER. Yes; I can't.

Senator JOHNSTON. What did they produce at this particular place?

The INTERPRETER. Coal, copper, lead, manganese, cobalt, gold, which is still done by hand. Much gold was mined at Bodajpo. The building of roads, railroads, and buildings was all done by prisoners. The Russian population do not like to go to Siberia because of the extreme difference in the climate. They have cold between 45 and 50 degrees below zero. The winter lasts about 8 months. In the north, for instance, around Voikuta, the summer lasts only about 2 months.

Mr. RUSHER. All right; now, let me ask you this, Mr. Batori: In the moving around that you did and the life that you led for 10 years in these prison colonies and camps, were you able to form any estimate of the general economic conditions around you in that part of the Soviet world?

The INTERPRETER. Yes.

Mr. RUSHER. Will you tell us briefly what conclusions you were able to draw?

The INTERPRETER. The Russian people—I mean the population—live mostly on bread, some vegetables, and some fish they have.

Mr. RUSHER. In other words, a low level of nutrition in the Russian part as well as in the prison?

The INTERPRETER. Yes; in order to get this food, they work from the age of 12 up to 70, about 10 or 12 hours a day.

Mr. RUSHER. Now again we are talking about the Russian population, not the prisoners; is that right?

The INTERPRETER. Yes. In general the man works either as a soldier or he works as a guard. The other kind of work is done by the wives or women and the children and the prisoners. From the age of 17 up to 25 or 26, the man serves in the army. From the age of 25 up to 30 or 31, he has to serve in workers' battalions. Russia, and particularly Siberia, is particularly rich in mineral sources. But coal and iron are so far away from each other that the transportation and other difficulties make it very hard for the industry to get raw materials.

Senator JOHNSON. Is that one reason they are building these railroads?

The INTERPRETER. That is why they are building. To help on these difficulties, they are building these railroads.

Mr. RUSHER. What about the conditions of the rolling stock on these railroads, aside from the salipinsky?

The INTERPRETER. Up to 1950 they only had steam—diesel.

Senator JOHNSON. The railroad is owned and run by the Government?

The INTERPRETER. Yes, they are all owned by the state. Nothing is in the hands of private people. The population have very little furniture, for instance. They have no bathrooms.

A man who has a radio or bicycle is counted as a rich man.

Mr. RUSHER. Now can you tell us something about the collective farms we hear so much about? How are they doing?

The INTERPRETER. Yes. As I mentioned before, on the farms the women, children, and elderly people work. An agricultural expert is in charge and the commander of the militia. No man can be absent from work without reason. Only if he get permission from a physician.

Mr. RUSHER. Does this result in an efficient operation of these collective farms?

The INTERPRETER. Yes, so they can produce as much as possible. The men receive a percentage from the proceeds of the farm.

Mr. RUSHER. Wait a minute. Which man?

The INTERPRETER. In the collective farms. The workers.

Mr. RUSHER. This would apply to the women and children and old people as well?

The INTERPRETER. Yes, they all get it. They all receive a part of the proceeds but only if the farm has passed the quota, which very seldom happens. They have difficulties—if they have a good crop they may not have the machines or if they have the machines they may not have the oil to run them. Or they have difficulties with the climate. And whatever the farm produces is taken away by the state.

Mr. RUSHER. Now, Mr. Batori, as a general conclusion from your 10 years in Siberia and the other prison colonies of the Soviet Union would you say that the Soviet Government and economy are strong? What would be your conclusions?

The INTERPRETER. The Soviet Government stands before economic collapse. So that they are compelled to get whatever they can from the non-Soviet lands like Hungary and the other Eastern European lands.



Mr. RUSHER. And also to gather the slave labor?

The INTERPRETER. From Rumania, Bulgaria, and Czechoslovakia.

Senator JOHNSTON. Do you find any of the workers that are not willing workers?

The INTERPRETER. They only work because they are forced. They have no ambition whatsoever. They have no ambition because no matter how much they work they get nothing for it. A private man cannot own an automobile, only a member of the party.

Senator JOHNSTON. When you say "a member of the party," I think you should explain that. What do you mean by a member of the party?

The INTERPRETER. I mean the Communist Party, which we call the Bolshevik Party, which has 3 to 4 million members. Then there are about 8 to 10 million people who are closely connected with the party. The rest of them, about 190 million, are simply slaves.

This is a clear picture of the Soviet Union and I did not exaggerate. You could not even believe it if I could tell everything what I have seen. The clothing of the population in Siberia is—they all have the same clothing, cotton, two layers of cotton and in between [witness indicating]. European clothing can be seen only in Moscow, Leningrad. They have some show factories in Moscow and Leningrad which is then shown to the tourists who come from Europe or other parts. A tourist cannot go anywhere except with a guide.

Senator JOHNSTON. Speaking of guides, there is generally one in front and one behind is there not?

The INTERPRETER. Along the railroad lines trees have been planted—

Mr. RUSHER. Just a minute, what is the point of that—go ahead.

The INTERPRETER. It was not because they wanted to save the railroad from snow or anything else, but to prevent people to see.

Mr. RUSHER. See what?

The INTERPRETER. See the country.

Mr. RUSHER. What the country looked like?

The INTERPRETER. Yes, the surroundings.

Mr. RUSHER. Senator, I understand that Mr. Batori who as you heard just arrived in the United States near the middle of March, is preparing now a written statement which will duly be translated and which will go into more detail and different subject matter than we have been able to cover here this morning. I would suggest respectfully than when the day comes when that is prepared if he will offer it to this subcommittee, provided it isn't too long for the record and for the expense involved, that we would perhaps like to include it in our record.

Senator JOHNSTON. I think we would be glad to have it.

Mr. RUSHER. I have no further questions at this time, Senator.

Senator JOHNSTON. How many people would you estimate live in Siberia?

The INTERPRETER. About 60 to 65 million in the Urals and in Siberia

Senator JOHNSTON. Sixty-five million?

How many are Russians?

The INTERPRETER. About 15 million Russians. About 12 million Ukrainians. About 4 million Lithuanians, Finns. Then some of the smaller nationalities have been transported entirely to Siberia like the Tartars from Crimea.



Mr. RUSHER. There has been one question suggested, Senator, which I will put, with your permission.

What was your education and training before the war in Hungary?

The INTERPRETER. I was preparing to be a professor of Latin and Hungarian and Latin languages. But in those times in Hungary conditions were such that I could not achieve my ambition. And at that time they enlarged the Hungarian Army where I served and I was accepted later on as an officer. And then I remained in the Army.

Senator JOHNSTON. What is your age now?

The INTERPRETER. 42.

Senator JOHNSTON. 42. We certainly thank you for coming today and giving us this information that we are not able to find out for ourselves by going over there. They won't turn us loose. I did go over just beyond the line, but as I suggested a few moments ago there was a party in front of me and a party behind me all the time that I was traveling. I didn't go very far.

The INTERPRETER. I thank you very much, Senator.

Senator JOHNSTON. The committee will be adjourned until the call of the Chair.

(Whereupon, at 12:05 p. m., the subcommittee adjourned, subject to the call of the Chair.)



# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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TUESDAY, APRIL 2, 1957

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY ACT  
AND OTHER INTERNAL SECURITY LAWS  
OF THE COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to call, at 10:30 a. m., in room 424, Senate Office Building, Senator William E. Jenner presiding.

Also present: Robert Morris, chief counsel.

Senator JENNER. The committee will come to order.

Mr. MORRIS. Senator, this is Dr. Poremsky.

Senator JENNER. How do you do, doctor.

Mr. MORRIS. Senator Jenner, Dr. Vladimir Poremsky, the witness today, is going to testify on the general nature of Soviet tactics. The subcommittee has, you know, taken the position that, in order to really know the nature of the Communist organization in the United States, since the Communist organization in the United States is an extension of Soviet power, we have to know the nature of the Soviet international organization, and Dr. Poremsky, here today, is qualified to testify on that particular subject.

Senator JENNER. Proceed with the questions.

Mr. MORRIS. Will you stand and be sworn, Dr. Poremsky?

Senator JENNER. Hold up your right hand, please.

Do you solemnly swear that the testimony given in this hearing will be the truth, the whole truth and nothing but the truth, so help you God.

Dr. POREMSKY. I do.

## TESTIMONY OF DR. VLADIMIR POREMSKY

Mr. MORRIS. Will you give your name to the reporter?

Dr. POREMSKY. My name is Poremsky, Vladimir.

Mr. MORRIS. Is that spelled P-o-r-e-m-s-k-y?

Dr. POREMSKY. That's right.

Mr. MORRIS. Where do you reside, Dr. Poremsky?

Dr. POREMSKY. In Frankfurt am Main, in Germany.

Mr. MORRIS. When did you come to the United States?

Dr. POREMSKY. On Sunday.

Mr. MORRIS. That is this past Sunday, March 31?

Dr. POREMSKY. Sunday, March 31.

Mr. MORRIS. You are the president of the NTS, are you not?

Dr. POREMSKY. Yes.

Mr. MORRIS. Will you tell the subcommittee what the NTS is?

Dr. POREMSKY. It is a Russian anti-Communist organization existing since 1930, and striving to overthrow the Communist regime by means of propaganda and by persuading the people behind the Iron Curtain to arise.

Mr. MORRIS. Now, Dr. Poremsky, will you tell us briefly how your organization operates?

Dr. POREMSKY. We operate openly in all free countries where we have our branches. But we operate underground in the Soviet Union. We operate underground only because of a terroristic system of suppression of all kinds of liberty in the Soviet Union. That is the only reason for our operations this way.

We have established a system of small groups nonconnected with each other and we give them our instruction with leaflets and broadcasting. That is our system of operation.

Mr. MORRIS. Do you have an organization now functioning in the Soviet Union?

Dr. POREMSKY. Yes.

Mr. MORRIS. Do you also have an organization functioning in the satellite countries?

Dr. POREMSKY. We have our contacts with some local peoples, there, and we have some Russians, too.

Mr. MORRIS. For instance, is there any liaison between your organization and the clandestine underground organizations that exist in Hungary and the other Iron Curtain countries?

Dr. POREMSKY. No. We have the contacts with some individuals but not with organizations, because an organization, in the sense we mean it in the free world, cannot exist right now under terrorist Communist rule.

Mr. MORRIS. But are you in a position to know what is going on in these various satellite countries as well as the Soviet Union?

Dr. POREMSKY. Yes. We have our contacts mostly with the people coming from behind the Iron Curtain and visiting the free countries, such as the staff of embassies or trade delegations or seamen going over here with their ships.

Senator JENNER. Let me get this straight. I understood you to say you have an underground organization in Russia, proper.

Dr. POREMSKY. Yes. That is right.

Senator JENNER. And you have an open operation in free countries like Germany.

Dr. POREMSKY. Yes, sir.

Senator JENNER. But in the satellite countries you don't have even an underground organization, your contact there is just with people, either natives or some Russians, but no underground organization?

Dr. POREMSKY. No, because—

Senator JENNER. Now, what I want to find out is—why is this possible, how is it possible to have an underground organization in Russia and yet you are not able to have an underground organization in the satellites?

Dr. POREMSKY. We are not willing to have because we are Russian and our prime objective is to do something in the Soviet Union.

Senator JENNER. I think that clears it up.

Mr. MORRIS. Now, by way of qualifying, though, Senator, I would like to press the point that you do have liaison and you do keep in touch with the underground individuals in the various satellites?

Dr. POREMSKY. That's right.

Mr. MORRIS. You make the distinction you are not in liaison with an organization but you are in liaison with individuals in the various satellite countries.

Dr. POREMSKY. Yes.

Mr. MORRIS. Could you tell us whether that liaison is extensive, whether you are able to learn what is going on in the satellite countries, and the reason I ask you that, Dr. Poremsky, is by way of qualifying you to talk on the various things that we are going to talk about toady.

Dr. POREMSKY. We have particular contacts in Eastern Germany.

Mr. MORRIS. Eastern Germany?

Dr. POREMSKY. Eastern Germany, because there is one of the main targets for our operation, the Soviet occupation army, so we contact these peoples by our people which we infiltrate in Eastern Germany, or through the channels of some German helping our work, contacting the Soviet occupational army. So, through the same channel of this German helping our work, propaganda work among the occupation army, we have all kinds of information about what happens in Eastern Germany.

Mr. MORRIS. So therefore you are able to learn, through these contacts that you have described, what is going on in Eastern Germany.

Dr. POREMSKY. Yes.

Mr. MORRIS. Do you have such contacts in Hungary and Poland?

Dr. POREMSKY. Yes; we have such contacts in Hungary, too, because our field of operations is in this contact, too. There are some occupational forces in Hungary and we try to maintain contact with them by our people coming through or by the Hungarian people coming through, going to and fro from Hungary to the west, and vice versa.

Mr. MORRIS. Now, how do you operate, Dr. Poremsky? In other words, do you use the free world as your base of operations?

Dr. POREMSKY. Yes. That is so; because it is impossible to have an organization, center of organization, inside Soviet Union, and our people are spread everywhere and we in the free world assume the link with them.

Mr. MORRIS. Now, do you organize people on a base that is within the free world and then do you send them in behind the Iron Curtain?

Dr. POREMSKY. That depends. Mostly we operate with the Soviet citizens which we contact somewhere, let's say, in Eastern Germany, some officer or soldiers. We enroll them in our organization and then after delivering them from the army, they are automatically our people working in the Soviet Union. We are trying to interest the Soviet marines or seamen visiting the ports. We contact them, giving them our literature and explaining to them our goals and our strategy and so they are working for our organization after they return home.

Mr. MORRIS. Now, Senator, I would like to ask the witness, if it meets with your approval, about the conditions that exist in some of the satellite countries at the present time. We have gone over this area



with Dr. Poremsky, and I think he can give us some valuable testimony.

Senator JENNER. That will be all right.

Is the Doctor in a position to tell us, or give us some estimate of the strength of his organization?

Dr. POREMSKY. The strength of—

Mr. MORRIS. Your organization.

Senator JENNER. Of your organization.

Dr. POREMSKY. Because of the character of our organization, we try to have people to act and not to report. We are not interested to know exactly the number of our people, because if we have some technical means to know this number, it would be the same for the opposing side. We believe so, so we try to avoid all technical means, normal technical means of communication, let's say meetings and open contacts or so, but we can estimate the number of our people by the violent reaction of the Soviet Government.

Senator JENNER. What is your estimation?

Dr. POREMSKY. Thousands and thousands.

Senator JENNER. Thousands—

Dr. POREMSKY. Which we know there certainly are, as our members are enrolled through the direct contacts of our people outside of Soviet Russia or in the occupational arm or in the marines.

But, according to our literature, we urge all the people reading our literature to enroll themselves in our organization without reporting it. We don't know, and we cannot estimate the number of such people enrolled by this act of—

Mr. MORRIS. You say that judging by the Soviet reaction to your work that you think you have great strength. Now, what do you mean by that, Dr. Poremsky?

Dr. POREMSKY. It runs to some hundred thousand probably.

Mr. MORRIS. Hundreds of thousands?

Dr. POREMSKY. Hundreds of thousands according to the reaction of the Soviet press and Soviet authorities.

Mr. MORRIS. Well, could you tell us about that reaction?

Dr. POREMSKY. This reaction was particularly violent after the Hungarian event. They have published many editorials in the Central Press, they attacked our organization in radio broadcasts—

Senator JENNER. By name?

Dr. POREMSKY. By name.

Senator JENNER. NTS?

Dr. POREMSKY. They have sent protests, official diplomatic protests in Great Britain—

Senator JENNER. Sent what?

Dr. POREMSKY. Diplomatic—

Mr. MORRIS. Protests.

Dr. POREMSKY. Protests to the British Government asking the British Government to prohibit our activities among the marines visiting the English ports, that's one example.

Then there is a situation about our criminal activity in Soviet Union on the floor of the United Nations recently, there was a speech mentioning our organization by name.

Then quite recently there were some more articles about activities and in one particular instance they accused our group of proposing that Moscow help the visitors to see what is to be seen and not what is

shown. They accuse us of having done it and they say that it is—it was done only in the interest of American Intelligence. The comment appeared in Komsomolskaya Pravda on the 27th of March of this year and before leaving Frankfurt I heard by telephone from our people in Berlin there are some new articles about our organization in a special magazine for the Soviet fleet in the issue of March. And then, in the other magazine for the foreign people, for the outside of Soviet Russia, New Times, an article by Zaslavsky giving a title about our activity.

MR. MORRIS. Dr. Poremsky, could you tell us what role you had, for instance, in the Hungarian uprising, for instance? Were there any Soviet soldiers defecting to your knowledge?

DR. POREMSKY. Our role was to facilitate the cooperation and possible mutual understanding between the Hungarian rebels and the Soviet soldiers in the Soviet camp to avoid bloodshed.

MR. MORRIS. You wanted to facilitate the merging of forces between the resistance in the Soviet Army and resistance among the Hungarians?

DR. POREMSKY. That is so.

MR. MORRIS. Tell us about that.

DR. POREMSKY. We believe, and it is supported by testimony of our people contacting Soviet occupational troops, that in the army there are so many anti-Communists and the rest, the bulk of the population, and we estimate some 90 percent, 90 percent of the people are violently anti-Communist in the army.

MR. MORRIS. Of the Hungarians?

DR. POREMSKY. Of the Russians.

MR. MORRIS. Russians in Hungary?

DR. POREMSKY. Everywhere, including Soviet occupational army.

So, the only possibility for the Soviet Government to let them act against the rebels is to indoctrinate them and don't tell them the fact the Hungarian uprising was a real popular one, not instigated or propagated from abroad, but really done by Hungarian workers against the dictatorial regime. So our role was to oppose this Soviet indoctrination. We have been told that some of the Soviet soldiers had it explained to them that the objective of Soviet soldiers in Hungary was to oppose the Anglo-French mission on the Suez Canal and some people coming to the border were told by the political experts that it was not Egypt but Suez canal, and our objective was to push out the Anglo—the British and French. So bad was the need of this indoctrination that they went to such means of lies.

And, our objective was even to disclose the truth about the popular uprising and on the other side to explain for the Hungarians there that certainly there are so many anti-Communists in the Soviet tanks and they are striving for liberty, for the overthrow of the Communist regime; that it is the same and if they achieve something in Hungary it will be the first step for the liberation of Russia too.

We hope that we have done something in this way and so—helping to avoid unnecessary bloodshed and unnecessary clash between the Hungarian rebels and eventually Soviet soldiers.

SENATOR JENNER. And you mean the Russian Army, the military men did defect in the Hungarian situation to quite an extent, did they not?

Dr. POREMSKY. Yes, thousands of them. How many, we have no exact figure.

Mr. MORRIS. But you knew there were thousands?

Dr. POREMSKY. Thousands of them.

Senator JENNER. And in the last struggle there, the last desperate struggle, my information is that the Russian leader brought in the Mongol soldiers.

Dr. POREMSKY. Mongols? No, it was not quite Mongols, we can call them Mongols because they look——

Mr. MORRIS. They look Mongolian?

Dr. POREMSKY. They look like them, they appear—they are people from central Asia, Cossaks, and Uzbeks, people which look Mongolian but are of a slight different origin.

Senator JENNER. What was the reason for that? Were they stronger Communists than the others?

Dr. POREMSKY. There were some of them speak badly, even Russian. The Soviet people, Soviet occupational troops previous to the event in Hungary established some kind of social contact with the local population and in Hungarian schools there was teaching of Russian. There was the possibility for Hungarians to speak bad Russian, but still Russian, with the Soviet soldiers; but these fresh newcomers speaking badly, even Russian, there was more handicap for Hungarians to contact them and explain the situation. That was the main reason.

Mr. MORRIS. How about the Russian occupation forces that were in Hungary at the time of the uprising, were there numerous defections among those forces?

Dr. POREMSKY. There were—how many divisions? Three divisions in the first stage of the revolution, but the occupational force in Hungary, during the first stage of the event were practically inactive, even because of previous social contacts and they understood the fact that since there was no provocation, no capitalist or Americans coming in and provoking the revolution, but that it was a genuine and popular uprising, so they practically withdrew the troops and the assignment to repress was given to the fresh troops coming in on the first of November.

Mr. MORRIS. Were those other troops indoctrinated in a different way from the first occupational troops?

Dr. POREMSKY. Oh, yes, certainly. They were lacking the knowledge about what was going on in Hungary and even lacked the technical possibility to know it because these fresh groups were mostly Communist troops and the Soviet soldiers were ordered to remain in the tanks and they were told: "If you go out of the tank you will be immediately shot by the Hungarians." The Hungarians revolting were not all anti-Communists, but anti-Russians too; but some said they remained in the tanks with no contact with the people and then there was a lapse of time between the beginning of the revolution and the coming of these fresh troops and it took the Soviet Government 13 days to reach the decision. In the Stalin time, it would have taken only a few hours, but in this time we have now in Soviet Russia the collective leadership and like every collective leadership, I'm not blaming democracy, but it is not going too rapidly as by a single man rule, but there was some other technical reason for delay: The need for thorough indoctrination of these troops before sending them in.

Mr. MORRIS. You say the need of thorough indoctrination.



Dr. POREMSKY. Yes.

Mr. MORRIS. What was the reason for the delay in the Soviets moving in, that?

Dr. POREMSKY. Yes.

Mr. MORRIS. Can you tell us to what extent the Russian troops may have aided the Hungarian freedom fighters?

Dr. POREMSKY. It was the different possibilities not to execute the Soviet orders, so many soldiers and even officers have done it.

Mr. MORRIS. You say soldiers and officers didn't execute the orders to shoot?

Dr. POREMSKY. To shoot, yes. There was one example we know exactly, there was a transport of Hungarian students, young people, toward Soviet Russia. It was after the first of November, and I personally spoke with the Hungarian escaping from this transport, and he said that this transport was conducted by some MVD people, but the soldiers of the common army have arrested this MVD people and let out all the Hungarians from this particular transport. And one of these Hungarians come over to the West and I spoke with him and he was very grateful for the Russian soldiers letting him escape from this transport. So that the more active ones was for, of the Soviet soldiers, not to execute the orders to shoot and to help the Hungarian people that way as I have just told, or eventually and perhaps it happens, too, to join directly with their arms the Hungarian rebels.

Mr. MORRIS. Do you know of any instances of Soviet soldiers joining the Hungarian uprising?

Dr. POREMSKY. Yes. There were even actual fighting between some Soviet tanks, these tanks shooting against the AVO, that is the Hungarian secret police.

Mr. MORRIS. How do you know that, Dr. Poremsky?

Dr. POREMSKY. From the testimony of the people which fled to the West afterward, Hungarians.

Mr. MORRIS. Have you talked to them, is that it, Dr. Poremsky?

Dr. POREMSKY. Well, with this particular people I haven't talked, but the people in my organization have contacted them in Austria and Germany and that was their testimony about these facts.

Mr. MORRIS. I am not asking you where this took place, but have you, yourself, personally spoken to Russian officers who have come out of the Hungarian—Russian soldiers and officers who have come out of Germany and Hungary?

Dr. POREMSKY. Just before leaving Frankfurt I spoke with a young Soviet soldier who have not assisted the event because he came along later, but as an operator for the cinema for the troops, he had many trips among the Soviet troops in Hungary, and he described the reaction, the sentiment and the description of facts as seen by Soviet soldiers.

Mr. MORRIS. What did he say?

Dr. POREMSKY. He confirmed all we knew about this, that the Soviet army was reluctant to combat, reluctant to execute the orders because they were aware there is no—no real provocation, there is no capitalist or Americans or some other people fighting with the Hungarians but the real workers, some of them showing the Soviet officers even their Communist Party cards, and just to show that they are Communists but they oppose this dictatorial system.

Mr. MORRIS. Would you say on the basis of what you know that the Russian forces and Soviet forces did aid the Hungarian freedom fighters?

Dr. POREMSKY. Yes, certainly; so much that one of the close observers of this event, Salvador de Madriago, a famous Spanish writer now residing, I believe, in England, wrote in the Manchester Guardian an article saying that the only non-Hungarians fighting on the side of the Hungarian rebels was the Russian soldiers.

Mr. MORRIS. You might say that the Hungarians got most of their assistance from the Russian soldiers, more than they did from the West?

Dr. POREMSKY. That is so, and the liberation of so many Hungarians I have met after the event, they are very friendly toward Russia and our organization because our organization helped them in so many ways and they know our organization is a Russian one.

Mr. MORRIS. Now, in your leaflets—did you use leaflets at the time of the Hungarian uprising?

Dr. POREMSKY. Yes, sir.

Mr. MORRIS. To whom were your leaflets addressed?

Dr. POREMSKY. To the Soviet soldiers, and we, in the last days of the first stage of the revolution, some days before the 1st of November, some of our literature were distributed by the Hungarian airplanes over Budapest.

Mr. MORRIS. In other words, Hungarian airplanes carried your leaflets?

Dr. POREMSKY. Yes.

Mr. MORRIS. In other words, freedom fighters were able to get some planes and those planes were used to distribute your leaflets over Budapest.

Dr. POREMSKY. Yes.

Senator JENNER. Your leaflets were addressed to the Communist soldier, not to the Hungarian people?

Dr. POREMSKY. There was on the back, a note in their language explaining why we needed this leaflet placed in the hands of the Soviet soldiers, explaining to the Hungarians; but practically it was the Hungarians that dropped the leaflets and putting them, too.

Mr. MORRIS. Dr. Poremsky, you have some samples of these leaflets (exhibiting same to Senator Jenner).

Senator JENNER. I see.

Mr. MORRIS. Now, Dr. Poremsky, could you estimate how many, on the basis of what you have been able to learn, how many Russian officers and soldiers defected?

Dr. POREMSKY. Probably a few thousand.

Mr. MORRIS. A few thousand?

Dr. POREMSKY. A few thousand, three or five thousand, probably, but we have been told that 3,000 were delivered back to Soviets on the eve of the 1st of November, to the general assembling these soldiers and giving them up to the Soviet, but the rest, remainder, certainly are in Hungary with the Hungarian people, guerrillas. How many, we don't know.

Mr. MORRIS. Dr. Poremsky, the subcommittee is endeavoring to learn the identity of any Russian soldiers who may have crossed the border into Austria. We have found it difficult to get such people. Should we conclude from that that there have been no Russian troops

crossing the border, or should we take that into consideration in calculating the number of defections?

Dr. POREMSKY. Probably there were a few individuals coming over. We must realize the psychology of the Soviet soldiers going over. If he is going over, that is to fight, really, and concretely with the arms and the hands, fight the Communists and not to enjoy the secure life somewhere in the West. So, among the people which really joined the Hungarian rebels to fight, there was—even it was to fight and not to go over, but certainly there are some, but I believe that it was particularly of interest to the Austrian Government to conceal these people.

Mr. MORRIS. If there were any, the Austrian Government would have to send them back to the Soviet Union.

Dr. POREMSKY. It would be politically unwise, morally, morally impossible to do it and to let them remain in Austria. It was very dangerous because it would give the pretext for the Soviet to intervene in Austria, so it's very improper.

Yes, we have some of these escapees, Soviet escapees, in Frankfurt.

Mr. MORRIS. You have some of them?

Dr. POREMSKY. Yes.

Mr. MORRIS. And your organization is working with them, keeping in touch with them?

Dr. POREMSKY. We are in touch with them, they are not now just our members, but sympathizers.

Mr. MORRIS. Do you feel, on the basis of the information that you learned from your organization, and its organizational contacts, that there will be another uprising?

Dr. POREMSKY. I strongly believe it would come in the near future because what is generating, the events like that in Hungary, that is not because of help we give from the free world, our organization on the whole of the free world. That is generated by the weakness of the Soviet regime. The first uprising also of Poland, in Soviet Russia and in all the satellite empire in 1953, June, in the spring in war concentration camps in Soviet Russia, and the uprising of Berlin, and I believe that the motivation of it was the sense of the weakness of the regime which followed the Stalin death.

Mr. MORRIS. This is the German uprising you say, motivated or impelled by the realization of the weakness of the regime?

Dr. POREMSKY. Yes; after Stalin.

Senator JENNER. After Stalin's death.

Dr. POREMSKY. They realize now that the Soviet Government and Communist regime is not so strong as they were previously, so they attempted this uprising.

Then the second manifestation of an open weakness was the organization during the 20th Congress, so we can say it was the second death of Stalin, and the answer to this weakening, the next step in the weakening of the Soviet regime was the events of Poland and in Hungary, and I believe that the weakening of Soviet regime is an irreversible process and it must cause something in the near future which will show for all the people that the next step to the decomposition of the Communist power is coming and that will motivate some other events like Hungary, the Hungarian events.



Mr. MORRIS. Do you think the attitude of the West is wise, as it manifested itself at the time of the Hungarian crisis, to do nothing at all about this uprising?

Dr. POREMSKY. It was pretty disastrous because the people behind the Iron Curtain grew more and more disillusioned about our attitude toward them. We, here in the West, not willing or not having the sympathy or views to do it, so I believe that it was a very unhappy thing.

Mr. MORRIS. A very what?

Senator JENNER. Unhappy.

Dr. POREMSKY. Unhappy thing to do nothing about it.

Mr. MORRIS. Do you think that anything could have been done at the time?

Dr. POREMSKY. Certainly I believe it, but we lacked the courage to do it. We shift the responsibility for such action to the United Nations, knowing in advance that the United Nations can do nothing in such occurrences.

Mr. MORRIS. Do you think that the West was foolish in committing its policy to the United Nations at the time of the Hungarian crisis?

Dr. POREMSKY. No, I don't blame this policy—it was the only thing possible—but we are unprepared for any other method of intervention. I personally believe, and we are trying now to forge the instrument of such an intervention which will be based, not on the Government and their policy, but on public opinion and the use in the youth in the free countries, because the reaction of the youths, particularly, I have said personally, in the European countries, was a very violent one. They were willing to do something for Hungary and asking their superiors in their Government to do something, but even the Government and the older politicians were reluctant to do so. I believe this may be because all the old people are a bit involved in this, either joined communism or have not opposed it violently or have been sympathizers with Communists, so their conscience is not quite clear. The youth is free of this what—this cooperation in the guilt. They can oppose violently the communism, because even today people help the Communist to establish—

Mr. MORRIS. You say that a factor we have to consider is the fact that the older people and the older political personalities, because of their indulgences in permitting communism to grow to the extent it has grown—

Dr. POREMSKY. Yes; it is that.

Mr. MORRIS. That they cannot act decisively because by their own past actions they themselves may be involved?

Dr. POREMSKY. Yes; I believe so.

Mr. MORRIS. Whereas the youth are able to act directly and without any consciousness of having participated themselves.

Dr. POREMSKY. And they are the same in the free world and behind the Iron Curtain, the young people in Hungary and Poland where the state stagnated now, and the same now in Soviet Russia, the young students, writers are the promoters of the new spirit, of the new and violent opposition to communism.

Mr. MORRIS. And you think that the United Nations cannot provide the machinery for aiding people who are in chains?

Dr. POREMSKY. No. The Communists being in the same building with the others.

Mr. MORRIS. Well now, do you feel that, if there had been any intervention or any assistance given to the Hungarians at the time of the Hungarian uprising in October and November, the Soviet Union could have gone on to aggression in the Middle East?

Dr. POREMSKY. No. I believe that even because of the free world's inactivity, reluctance to do something during the Hungarian events, was somewhat encouraging for the Soviets to intervene in the Middle East.

Mr. MORRIS. You mean the inactivity of the free world at the time of the Hungarian crisis even sparked the Soviet aggression in the Middle East?

Dr. POREMSKY. Yes, I would like to say they provoked this aggression, this attitude in the Middle East.

Mr. MORRIS. And do you say that if there had been some intervention of some kind in Hungary, then you say this other would not have taken place?

Dr. POREMSKY. Yes. Even very strong and firm position in the Hungarian question would probably check the next Soviet step in the Middle East.

Mr. MORRIS. Now, I wonder if you, Senator, would like to know any more about the Hungarian situation at this time?

Senator JENNER. No.

Mr. MORRIS. What do you think the attitude of the free world should be now with respect to Poland?

Dr. POREMSKY. Poland has quite a particular situation right now. It is not to be compared with Titoism. Gomulka is not a Titoist. Tito is just another Communist dictator having against him the bulk of the Yugoslav population. It is not quite so important. Gomulka enjoyed some kind of conditional support from the population. He is compromising between the demand of the population asking him to do one kind of thing, and the Soviet leaders in Moscow striving that he would do some other things, so he is compromising with these two trends and so much as he is on the side of the Polish population, so much he is supported by the population; but this kind of support has been given on condition that he will follow the route, possibly the same as Imre Nagy had done in Hungary.

Mr. MORRIS. You mean he has certain popular support which will be pledged to him as long as he pursues an independent course or tries to pursue an independent course?

Dr. POREMSKY. Yes, that is so.

Mr. MORRIS. At the same time, are the Soviets imposing any conditions on him?

Dr. POREMSKY. Oh, yes, certainly.

Mr. MORRIS. Could you tell us about that?

Dr. POREMSKY. The Soviet policy in this particular situation is to blackmail the Polish people with the vision of revival of German militarism, the Soviets giving the guaranty for the other line between Poland and Germany, and they try to reintroduce in the government, in the central committee of Communist parties, the people which are opposing Gomulka. That is the kind of maneuver they try, by which they try to restore the situation in Poland.

Mr. MORRIS. Do you have any advice for the United States, particularly the United States Senators who are concerned about Polish aid, as to the form aid to Poland should take?

Dr. POREMSKY. I would like to put it this way: Help Polish people but not help Gomulka.

Mr. MORRIS. How could you accomplish that, can you make that specific?

Dr. POREMSKY. So, if this aid would consist of some consumer goods given to the Polish population and specifically labelled "made in the United States," it would be probably the best way to realize this help.

Senator JENNER. How could you do that without Gomulka's or the Government's cooperation?

Dr. POREMSKY. If he is not cooperating, then just give this aid on the same conditions the Polish people are imposing on Gomulka. This kind of conditions would get it back to the Polish people.

Mr. MORRIS. You say because the Polish people themselves are imposing—

Dr. POREMSKY. Some conditions on Gomulka.

Mr. MORRIS. And that we, by the same token, have the same conditions?

Dr. POREMSKY. Yes. There is a general principle in such a thing, that is to help the people and not the ruler. Gomulka is still a Communist ruler.

Senator JENNER. How are you going to mark grain, for example, wheat, as made or coming from the United States, how can you identify it? How are the people ever going to know that this country helped them instead of helping Gomulka?

Dr. POREMSKY. I believe there is something, there are technical possibilities with our propaganda machinery and now the public life in Poland is more free than it was before, so many people are coming outside and speaking practically freely with the other people outside Poland, and so many visitors going there, so probably right now just such a fact couldn't be concealed from the population, it would be everywhere known.

Mr. MORRIS. Do you think that the West should have a plan to anticipate this new uprising that you say will take place?

Before I ask you that, where do you think this next uprising will take place, Dr. Poremsky?

Dr. POREMSKY. It is very hard to fix an exact date about that, but I hope in the very near future, perhaps in 1 or 2 years it may happen.

Mr. MORRIS. And do you think it is important that a plan on the part of the West be formulated before this event takes place?

Dr. POREMSKY. Yes, I believe it is absolutely necessary because there are only two possibilities open: Overthrow of the Communist regime by the means of popular uprising, or this atomic war. There is no other way out of the situation, and the chances of the big war, shooting war, are threatening more and more every day, so in the future it's unavoidable, if we don't do something in the other field, in the field of overthrowing the Communist regime by insiders, inside forces, and so excluding even the chances of that war automatically.

Mr. MORRIS. You say if we do give some attention to overthrowing the Communist regime that we are insuring ourselves against a third world war?

Dr. POREMSKY. Yes, I possibly believe there is the only chance for it.

Mr. MORRIS. Senator, in connection with that we had a witness here recently who testified, that from his knowledge and from his con-



tacts inside Hungary, he expected there would be another uprising in Hungary. I think Senator Hruska was presiding at that hearing, and made the recommendation to the American Ambassador to the United Nations, Henry Cabot Lodge, that the United Nations and the West should develop some kind of plan before such uprising takes place. I can recall that Ambassador Lodge did say that he was recommending to the State Department that it institute some kind of a plan to anticipate the next uprising, if it takes place.

Can you make any recommendations about such a plan to anticipate another uprising?

Dr. POREMSKY. We are trying to do this on private level because we believe that public opinion is the most important factor. It is very difficult in our democratic countries for the government to do something in this situation without the approval of the public opinion.

I would like to begin this way: With public opinion, the private organization anticipating taking the risk for this preparation, it is probably now too early to take these responsibilities for the governments, but the private group and private citizens can do it and can do it very effectively. Just to mention an example, our organization had an international meeting last year and there it was stated that some kind of an international liaison bureau or organization on an international level must be created. Now this enterprise is beginning to be realized and I have said it in a small press conference in Frankfurt 2 months ago, and immediately this idea even was violently attacked in the Soviet press in all the satellite countries and in the Soviet central press, too. All these anti-Communist organizations are not building the unit, one single international center, and they are very sensible about this idea of having an international force opposing them [the Communist government] so they cannot accuse just American imperialism or German militarism or some other, but the Communist is opposing them on international level with the private organization which cannot be accused that they are the tools of this, that, or the other—

Mr. MORRIS. The free forces of the world.

Dr. POREMSKY. Yes, like United Nations but not on government level, but on the level of anti-Communist groups of people.

Mr. MORRIS. Dr. Poremsky, this Internal Security Subcommittee is primarily concerned with Communist infiltration within our borders. Are you able to know about, say, the Soviet officials who come to the United States, or the nature of the Soviet organization in the United States? Can you tell us anything about that, Dr. Poremsky?

Dr. POREMSKY. All the testimony and the facts we know support this conclusion, that all the Soviet people, practically all, going abroad, are agents for the Soviet Government, not only for the Soviet Government but the most of them for the secret police. They are especially trained, have special instructions, and if they are diplomats, they are diplomats only secondly; first, they are agents.

Mr. MORRIS. You say they are agents first and diplomats second?

Dr. POREMSKY. Yes, that's so.

Senator JENNER. Doctor, in your estimation, would that apply to commissions and so forth that are sent over here by the Communist government to study our technical know-how in industry and agriculture and so forth; would that same statement apply?

Dr. POREMSKY. Not wholly, those they need for the camouflage; there will be some in this delegation, some specialists too, and in technical delegations, technical places they have professional men, but still they are accompanied by the special people as advisers, or interpreters and so on who assume the role to watch them and to do the spying work.

Mr. MORRIS. You were telling us last night, Dr. Poremsky, the importance of the American Daily Worker in the Communist scheme of things.

Dr. POREMSKY. Yes. There was a particular instance—I visited recently in the Philippines and I have been told by the local people, the defense minister, that the Communist infiltration in the Philippines is going via United States.

Mr. MORRIS. You mean the Communist infiltration over in the Philippines is now taking place via the United States?

Dr. POREMSKY. Yes, via United States.

Mr. MORRIS. What do you mean by that, Dr. Poremsky?

Dr. POREMSKY. That the brains for the Communist Party in the Philippines are in the United States, or eventually some American citizens of Communist extraction are organizing or helping to organize the Philippine Communist movement.

Mr. MORRIS. Is it a fact that there is a reservoir of good will in the Philippines, in the Philippine Islands, toward the United States that is being capitalized by American Communists to carry on their work of conquering the Philippines?

Dr. POREMSKY. Yes. That is why they play the role, but there was the technical common language, and so many times between the Philippines and the United States, helping the Communists utilize these chances for carrying on this work.

Mr. MORRIS. Could you say this, I'd like to get back to this reference that you told us about the Daily Worker last night, you remember that the Daily Worker is quoted in the Soviet propaganda organs.

Dr. POREMSKY. That is very interesting, because it is considered in the United States as a paper of no importance, but they cite references to the same publication in the Daily Worker and for a reader in the Soviet Union or a satellite state, they don't know the importance or unimportance of the Daily Worker, and if this is a reference from the Daily Worker, it is just the same as a reference to the New York Times. Referring to the Daily Worker means, to the public, referring to the public opinion in the United States.

Mr. MORRIS. In other words, how is it referred to in the Soviet propaganda organs?

Dr. POREMSKY. The central press—that in the Daily Worker was said this and this.

Senator JENNER. The Daily Worker of what, the United States?

Dr. POREMSKY. Yes, yes.

Senator JENNER. I see.

Dr. POREMSKY. In the Soviet central press, saying that the public opinion in the United States is against the President's doctrine in the Middle East, taking that question.

Mr. MORRIS. People who hear that over there don't realize that the Daily Worker is a Communist publication operated out of New York City?



Dr. POREMSKY. No. So many know nothing about the United States, some people know all about it; but not the common reader in the Soviet Union.

Mr. MORRIS. I wonder if you could tell us generally about the numbers of the Soviet representatives that attend the various diplomatic and United Nations missions throughout the world? You were telling us something about that.

Dr. POREMSKY. The number of these people is very much exaggerated. I felt that in Indonesia, for the embassies, the staff of the embassies, 300 people in the Soviet Embassy in Indonesia, all this is needless for the normal diplomatic routine. It only can be explained by the particular interest the Soviet corresponding agency has in subversive work in Indonesia, and in all the countries trying to increase the number of so-called diplomatic representatives. Some of them are routine professional workers, but the most of them are not.

Mr. MORRIS. Now, you say that there is a large delegation in Indonesia, a large Soviet delegation?

Dr. POREMSKY. Yes.

Mr. MORRIS. How do you know?

Dr. POREMSKY. I have been told by the Chinese coming from Indonesia that there are 500 people in the embassy staff at Jakarta.

Mr. MORRIS. Mr. Chairman, I would like to make reference in the record to a statement made by a Philippine official here on Sunday. This was to the effect that even if the United States should—and he put it supposititiously—even if the United States should recognize Communist China, the Philippine Government would not recognize Red China. He said they have a realization, over and above the morality of the thing, that the real problem in the Philippines is that there is a large Chinese population and, with a Red Chinese ambassador and Red Chinese representation there, there would be an organization fraught with Red agents who would be doing work, all kinds of mischief among the Chinese population. He went on to point out that this Chinese population in the Philippines, in the Philippine Islands, is a very important part of the economic life and poses a particular problem to the Philippines. This problem is emphasized by your statement just now that Indonesia, in Indonesia the Soviets have 500 people in their diplomatic mission—

Dr. POREMSKY. Yes.

Mr. MORRIS. Especially since you say that, from your experience they are mostly agents, and diplomats second.

Dr. POREMSKY. Yes, most of them, but few realize there is no need for 500 professional diplomats in Indonesia, there is nothing for them there.

Mr. MORRIS. Now, is it important to the United States to keep up its guard in connection with infiltration from abroad? How important is that? Give us some idea on that, Dr. Poremsky.

Dr. POREMSKY. The Communists have a global doctrine and they are systematically pursuing their goals. So, probably right now the United States is not the weakest spot, when the infiltration gives some very important results, but it is so right now, but the situation can change. They are using their reserves of infiltrating people for the

occurrence. This spot may grow up as a weak one. It can happen anywhere in the world, so the damages of infiltration are twofold: Practically they know through the infiltrating agencies all our steps against them, they sabotage our strength, military, industrial, psychological strength which is most important, or these people are here for the eventuality of something happening, enemies, crisis, or something. So these people build a spot for this opportunity and to increase their importance, and their damage which they can organize.

Mr. MORRIS. Now, have you read this short release that is prepared on the letterhead of the International Research on Communist Techniques, about yourself?

Dr. POREMSKY. Yes.

Mr. MORRIS. Are the facts in there, in the 2-page summary, of your own tactics and the organization, true?

Dr. POREMSKY. Yes.

Mr. MORRIS. Senator, I know, in your time limitation this morning, I did not take the witness through this 2-page summary of his own particular experiences. Now that he has testified here under oath, this is an accurate statement, may this go into the record by way of qualifying the witness and what he has said?

Senator JENNER. This may go in the record and become a part of the official record of this committee.

(News release from International Research on Communist Techniques, Inc., is as follows:)

[NEWS RELEASE FROM INTERNATIONAL RESEARCH ON COMMUNIST TECHNIQUES, INC., 55 WEST 42ND STREET, NEW YORK, N. Y., APRIL 2, 1957]

#### BACKGROUND NOTES ON DR. VLADIMIR POREMSKY

Dr. Vladimir D. Poremsky, 48, is the president of NTS (Natsional'no-Trudovoi Soyuz), the National Alliance of Russian Solidarists, whose international headquarters in Frankfurt/Main, W. Germany, coordinate the anti-Communist activities of this organization on both sides of the iron curtain.

NTS is the nucleus and directing force of the Russian revolutionary movement, whose goal is the establishment of a free representative government in Russia. The NTS political offensive is aimed at developing such a strong opposition to the Communist regime that the change in government can be accomplished with a minimum of physical conflict. Because of the nature of the Soviet police state, NTS is forced to operate underground within the U. S. S. R. and among Soviet occupation troops in satellite countries. Its chief methods are the distribution of literature (leaflets, pamphlets, newspapers, books), short-wave broadcasts, and personal contact.

Within the free world, where NTS is represented in some 24 countries, the activities of its members are carried on openly. These are proving of real value in helping to expose Soviet propaganda and methods of operation, and serving as a liaison between the free and the enslaved peoples.

Vladimir Poremsky fled from strife-torn Russia with his parents in 1921. He studied in Yugoslavia and in France, where he completed his Ph. D. in chemistry at the Sorbonne. He is fluent in a number of languages, including English, Russian, French, German, Ukrainian, etc. He is married, has a son (now a student at a leading German university), lives in Frankfurt/Main.

Dr. Poremsky was one of the founders of NTS, which was organized in Belgrade in 1930 by young Russian emigre students in Europe, for the purpose of developing a positive program for a Free Russia and a revolutionary technique that could operate successfully within the Soviet police state. The NTS "molecular system of revolution," worked out by Dr. Poremsky, has made possible the organization of a completely decentralized underground that operates according to a basic plan of strategy. This technique, combined with the positive democratic program of NTS, has proved so successful that by 1953 NTS was classified by Soviet Intelligence as "the most dangerous enemy of the Soviet regime." An intensive cam-

paign against NTS has been conducted by the Soviets for a number of years on three levels—diplomatic, propaganda, and underground—on both sides of the Iron Curtain.

Dr. Poremsky was founder of the French Branch of NTS. Deported to Germany in 1941, after the fall of France, he worked semiunderground, especially among Russian POW's. During the entire period of World War II, NTS operated as "The Third Force" against both the Nazis and the Soviets ("Neither Stalin or Hitler—but a Free Russia.") Their plans for a postwar democratic revolution in Russia were thwarted, however, by lack of understanding in the West.

Dr. Poremsky was arrested by the Gestapo in June 1944, and was held in Nazi concentration camp until his liberation at the end of World War II. With other surviving NTS leaders and members, he was active in the postwar reorganization of NTS and the rescue of numbers of other anti-Communist Russians from forced repatriation. He became head of the diplomatic section of NTS.

In January 1955, Dr. Poremsky was elected president of NTS. In May of that year he was invited, as a representative of the Russian people, to attend a conference of the Asian Peoples' Anti-Communist League in Taiwan (Formosa). Plans were laid for coordinated strategy of the democratic anti-Communist forces of Asia and Europe, and active coordination established between NTS and Free China. During the past two years, Dr. Poremsky has made two round-the-world trips in this connection. He was the keynote speaker at the International Liberation Conference held in Frankfurt/Main in September 1956, which was attended by some 300 delegates and observers from all over the world, representing active democratic anti-Communist forces among both the free and the enslaved peoples.

From plans discussed at this conference, there has now been organized an International Liaison Bureau, headquartered in Frankfurt/Main, which has already started to function as a clearinghouse and coordinating center for the strategy for international democratic forces against international communism. It has already been violently attacked in the Soviet press and radio—a clear indication of its significance in the global conflict between democracy and communism.

MR. MORRIS. I know your time commitment is 1 hour here, Senator, and I think that what we would like to do is to at least finish this particular session and have a further executive session with Dr. Poremsky and decide whether or not he will make another appearance.

There is more to tell than he has told us here, but he covered it with us in personal session. However, knowing your time commitments, we will not do that now.

SENATOR JENNER. Doctor, I want to say that the Internal Security Subcommittee appreciates your testimony here. Speaking for myself, I know how necessary and important your work is. I only hope that the United Nations and our own Government is heeding all of this evidence, and the committee will go into further executive session.

We will have a further public hearing with you later.

DR. POREMSKY. Thank you for your time.

SENATOR JENNER. Thank you very much.

(Thereupon, at 11:30 a. m., the subcommittee stood adjourned.)





# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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WEDNESDAY, APRIL 3, 1957

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY ACT  
AND OTHER INTERNAL SECURITY LAWS  
OF THE COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met pursuant to call at 11 a. m., in room 424, Senate Office Building, Senator Roman L. Hruska presiding.

Also present: Robert Morris, chief counsel; and William A. Rusher, associate counsel.

Senator HRUSKA. The committee will come to order.

This is a continuation of the hearing in which Dr. Poremsky has been a witness as of yesterday.

Mr. Morris, will you proceed with your questioning?

Mr. MORRIS. I might say, Senator, we had developed yesterday testimony from Dr. Poremsky to the effect that his group organized as they are and as he described very carefully, expects that there will be 1 or 2 uprisings in the very near future. He did not specify whether that will take place in the satellite countries or in the Soviet Union, but all the evidence they have tends to support that particular conclusion.

Now, we asked him in detail, Senator, for his knowledge learned from his sources, of what happened inside Hungary, and he described that very fully.

In the course of that, he mentioned that one of the great mistakes the United States was making and the free world was making, generally, was complete reliance at the time of these emergencies on the United Nations. I thought it would be appropriate at the beginning of today's hearing if he would develop that idea for us.

He said, and, as you know, Senator, since you heard Mr. Fonagy testify before the committee, that an uprising in Hungary can be expected in the near future, you transmitted that testimony to Ambassador Lodge, who expressed agreement with you that, in the event there should be another uprising, the State Department should have plans and the United Nations should have plans to meet such a situation.

Senator HRUSKA. And he indicated some effort would be expended in that direction.

Mr. MORRIS. That is right, sir. I haven't heard whether or not the Department is formulating plans, but I thought it would be good for us if Dr. Poremsky, qualified as he is, would explain to us what plans should be undertaken. As he said yesterday, we just shouldn't sit back and allow the United Nations to take over because, he said,



there were certain inadequacies. I wonder if you would develop that?

Senator HRUSKA. Very well.

Dr. POREMSKY.

Dr. POREMSKY. I said yesterday morning that it was a very natural move to appeal to the United Nations for intervention in the Hungarian affair. But, being natural, that move had led to nothing, because the United Nations is unable to reach agreement, Communists being inside that organization and taking part in the decisions.

So, it was illusory to think that the United Nations would act, and, secondly, would act rapidly.

Mr. MORRIS. Would act what?

Dr. POREMSKY. Would act rapidly. What was needed during the short time of the Hungarian events, was that some quick steps, some quick measures be taken to help these people to achieve the final victory over the Communists.

As I have said, it is impossible to expect that the United Nations can do it. So, if—and I believe so—in some future there will be another uprising behind the Iron Curtain, the free world, and particularly the United States, must take some measures to help the people behind the Iron Curtain.

Some plans must be prepared beforehand. I would just look at what we as NTS are trying to do. During our conference in September last year in Frankfurt, there was brought to light the idea of organizing an international cooperative center of different anti-Communist organizations throughout the world, only on an international basis.

Mr. MORRIS. On an international basis?

Dr. POREMSKY. Yes; the private anti-Communist organizations in possibly all the countries of the world. There might be a signed agreement between such organizations from different parts of the world. Some of these outside ones are the Burma Anti-Communist League, from Burma; Anti-Communist Latin-American Crusade, that is the organization including all the anti-Communist groups in 90 countries of South America; the Asian Peoples' Anti-Communist League, including the groups from different countries in southeast Asia and the Far East; the Free Asia Nations, from Japan; a Greek organization, Friade, another organization NTS; and a German organization, Volksbund für Frieden und Freiheit. There are many other such organizations.

After my visit to the Far East in January 1957, I visited some of these people, and spoke with some of the outstanding anti-Communist people there. They agreed upon some practical steps in this direction; that is, in the establishment of this worldwide organization with headquarters in Frankfurt for all the organizations. After returning to Frankfurt I had given a press statement saying the first step of establishment of the organization was already done. It was violently commented in the Soviet—

Mr. MORRIS. There was violent comment on the part of the Soviet press?

Dr. POREMSKY. Yes, in the Soviet press and in the satellite countries, East Germany, Poland, and so on, accusing the warmongers and anti-Communists of unifying their efforts toward the popular regime.

So, according to this reaction from the Soviets, I believe that this idea is a very sound one—that is, to combine the anti-Communist forces all over the world on this international basis—and I believe that public opinion in the United States and free organizations and private organizations of the anti-Communist groups in the United States can and must join in this initiative.

Mr. MORRIS. You think that there must be an international organization, anti-Communist in orientation? You think such an organization is necessary to have any effective counteroffensive against the Communist forces?

Dr. POREMSKY. Yes; it is not enough, because your Government must be involved, too. But such a private international organization can do many things which the Government cannot do in the present situation.

Mr. MORRIS. For instance?

Dr. POREMSKY. Let us say in Hungary, the Hungarians were badly in need of different kinds of help, including volunteers. But there was no platform and no organization in charge of mobilizing these volunteers and providing them with the possibility to join the rebels in Hungary.

Senator HRUSKA. What do you mean, volunteers; from within or outside Hungary?

Dr. POREMSKY. From outside. The volunteers were like the volunteers during the Spanish civil war.

Mr. MORRIS. It is not under the banner of any particular flag of any particular country.

Dr. POREMSKY. That is right. Because, if the volunteers are going under the flag of this or another state, then they may be accused, this people, and the corresponding government may be accused, we say, of military intervention in the affairs of this or another country. But if it is done on an international basis, then this aspect of the problem does not exist, because these people wouldn't do it on the orders of this or another government of the free world, but only as the public at large.

Mr. MORRIS. The Soviet Union actually organizes volunteers, doesn't it?

Dr. POREMSKY. Yes; they do it artificially, because I don't believe people are so eager to go into the Middle East. It was all staged by the Soviet Government. But I believe that in the free world we don't need such staging. There was a genuine will among the youth in different countries who were willing to fight for the Hungarians.

In our weekly in Frankfurt we received hundreds and hundreds of letters from the students from different European and some other countries. So we received from South Korea, from India, from Burma, from other countries, from young people willing to join in efforts being volunteers to combat Communists in Hungary.

Senator HRUSKA. Now, what other ways, besides being active in the field of enlisting and perhaps directing volunteers, could this international organization be of assistance in ways which could not be done by governments themselves?

Dr. POREMSKY. I would take, for example, our own organization, the NTS. We need the assistance and the help of the free world. But, if this assistance is given by government, we are immediately accused of being the instrument, the tool, of the foreign policy of the corre-

sponding government. If this help or assistance is given by private groups or by an international organization, we are free of that charge.

Senator HRUSKA. And working with volunteers is one of the ways they can do it. What other ways are there, besides that?

Dr. POREMSKY. To prepare the necessary climate for such uprisings. One of the very important jobs to do, by the way of propaganda behind the Iron Curtain, is to stress that the chauvinism, the local nationalism, is exploited by Communists. It is not our weapon to fight communism. All the nationalities behind the Iron Curtain must unify and combine their efforts. It was clearly shown in Hungary, where the understanding, the possibility of understanding between the Russian Communists and the Soviet occupational forces and the Hungarian people was so important for the victory.

If something arises somewhere else, the Communists will try to combat this or other uprisings in this or other countries by the armed forces taken from the other countries.

So if they are opposed on the national basis and if these people don't understand that there must be mutual understanding and combining of effort, then it is damaging to the cause.

Senator HRUSKA. Now, you speak of preparing a climate for a further uprising. How is such a climate prepared, what do you do to prepare the climate?

Dr. POREMSKY. Our organization is running a small radio station and we try to drop our leaflets from balloons or introduce them by some other channels to people coming from this country to the free world, and we contact them, sailors or tourists, or even diplomats, and we give them our literature and they carry it back to the Soviet Union.

That is one of the ways to influence people with the corresponding propaganda literature which can, by different technical means, be introduced behind the Iron Curtain.

We do it for Soviet Russia. There is probably some other organizations, I know there are, who are willing to do the same.

Mr. MORRIS. Mr. Malyshev is trying to get your attention.

Dr. POREMSKY. Mr. Malyshev suggests I mention that this kind of cooperation can be trained by the organization existing in NTS and the Chinese Anti-Communist League.

Mr. MORRIS. What is the Chinese Anti-Communist League?

Dr. POREMSKY. That is a broad organization on Formosa, including some 500 different organizations, and all of these called this Anti-Communist League, Chinese chapter of the Asian Peoples Anti-Communist League, a very powerful organization having the possibility of using the Government planes for dropping the leaflets in the mainland China or using official Government broadcasting system.

Mr. MORRIS. You mean there is a sort of Asian counterpart of your organization representing in the Far East?

Dr. POREMSKY. Yes, in China, but in the other countries, too, Vietnam, Korea, the Philippines, and other countries.

Mr. MORRIS. Who are members of that Chinese Anti-Communist League, who are the people who make up that league?

Dr. POREMSKY. All kinds of people, Siamese and so on.

Mr. MORRIS. Is it restricted to Formosa?

Dr. POREMSKY. To Formosa and some other countries where the overseas Chinese are.



Mr. MORRIS. They did have a recent convention in Manila; did they not?

Dr. POREMSKY. In November of last year, but the bigger one is held right now in Saigon. We have sent our observers there, too. It was from 27th of March until 2d of April, the third conference of this Asiatic anti-Communist group.

Mr. MORRIS. Would you call that a counterpart of your organization, what they are trying to do in the Far East? Is that similar to what you are trying to do in Europe and Eastern Asia?

Dr. POREMSKY. It is similar. It is similar with the Korean, Chinese and Vietnam organizations, because they have the same goal as ours. That is, to help their brothers in the Communist-dominated areas.

So far we are very similar organizations and we cooperate very closely with them.

Senator HRUSKA. Were they represented in the September meeting in Frankfurt?

Dr. POREMSKY. Yes; they were represented in the September meeting in Frankfurt, and they signed the agreements about the creation of this international liaison bureau which was already created on the 7th of March in Frankfurt.

Mr. MORRIS. Senator, Dr. Poremsky yesterday developed the idea that unless we have some kind of political organization behind the Iron Curtain, unless the free world has such an organization behind the Iron Curtain, that we have, that we can expect no alternative but a third world war.

I wonder if you could talk about the time element in that? What is your estimate of the time available to the free world?

Dr. POREMSKY. I believe that the time is very short. I have been told from the military side that there is some argument in favor of the high possibility that time is short.

So there is the race between the efforts of the free world to change the regime behind the Iron Curtain and the probability or eventuality of the third world war.

Because coexistence is only a frame for this two alternatives, for a final showdown, military showdown with the Communists or the overthrow by the people themselves of the Communist rule behind the Iron Curtain.

So I believe that we must hurry, with all that is needed to develop the activities behind the Iron Curtain.

What are the Communists doing in the free world? They have a Communist Party everywhere and they interfere with the efforts of the free world openly because they have the instruments and the tools of such interference with the affairs of the free world. And the free world has so few tools to interfere with theirs. There must be something equal, and I believe the work of organizations which are operating behind the Iron Curtain is the equivalent of such a tool in working against the Communists and balancing the chances in sight.

Mr. MORRIS. Dr. Poremsky, do you have any—are you in a position that you can tell us about Soviet aggressions in Central and Latin America?

Dr. POREMSKY. Yes. On this September conference in Frankfurt we met different representatives from these countries. And they said

that infiltration, Communist infiltration in South American countries is very great.

Mr. MORRIS. This is the agreement at your Frankfurt conference? The agreement of all members of your organization?

Dr. POREMSKY. This league.

Mr. MORRIS. The Anti-Communist League in Asia and South America?

Dr. POREMSKY. In South America, too. The name of this league is Anti-Communist Latin American Crusade.

Mr. MORRIS. So they had delegates there?

Dr. POREMSKY. Yes; they had delegates there.

Mr. MORRIS. As well as the anti-Communist Chinese?

Dr. POREMSKY. Yes; that is right. Now, on the 10th of April there is a third conference of this Latin America group in Lima. So they said that the infiltration in South America is a very profound one, and they have had some successes, and the Bolivian regime can be considered a very pro-Communist one.

Mr. MORRIS. In other words, it was the conclusion of these delegates that the Bolivian Government itself is pro-Communist?

Dr. POREMSKY. Pro-Communist, pro-Communist government. And the Soviet operates mostly from the Mexican base.

Mr. MORRIS. The Soviet in Latin America operates out of a Mexican base?

Dr. POREMSKY. Yes, sir; they are the headquarters of the operation for the whole of South America. It can be concluded because while Mexico there is not a very big country, the Embassy staff is 900 people, the Soviet Embassy in Mexico is 900 people. These people can't all be diplomats.

Mr. MORRIS. There are 900 Soviet representatives in the Mexican Embassy?

Dr. POREMSKY. 900 Soviet representatives in the Mexican Embassy, in Mexico.

Senator HRUSKA. Is there any such disproportion in other embassies of South America or Central America?

Dr. POREMSKY. I have mentioned yesterday a very clear disproportion. I mentioned this 500 in the embassy staff in Indonesia.

Senator HRUSKA. You mentioned Mexico City now. Is that true in other countries?

Dr. POREMSKY. Many do not have diplomatic relations with the Soviet Union.

Senator HRUSKA. Bolivia?

Dr. POREMSKY. Yes.

Senator HRUSKA. How many are there?

Dr. POREMSKY. I don't know.

Mr. MORRIS. I think it might be advisable at this time to put in the record what the numerical makeup of our own Embassy is.

Senator HRUSKA. That would be an interesting contrast, not a comparison, but a contrast.

Dr. POREMSKY. A contrast; yes.

Senator HRUSKA. It would be.

Mr. MORRIS. Dr. Poremsky said yesterday there were 500 individuals in the Soviet Embassy in Indonesia.

Now, when you say 900 in Mexico, what does this include; not only the consular officials, but probably trade officials?



Dr. POREMSKY. Trade officials, every kind of secretary, heads of different committees, missions, I don't know exactly what their official titles are.

Senator HRUSKA. Are most of them headquartered in Mexico City?

Dr. POREMSKY. Yes, yes, in Mexico City.

Mr. MORRIS. Are they restricted in any way in movement, do you know?

Dr. POREMSKY. No, I will say they go free all over the country.

Mr. MORRIS. And is it the attitude or the expression of these people in the Anti-Communist League of Latin America that Soviet penetration of South America proceeds out of Mexico?

Dr. POREMSKY. Yes, that is what they have said. Technically they say the headquarters of the spy network, and agents carrying orders and money probably are situated in Mexico.

Mr. MORRIS. Now, is there anything more about the Latin American organization that you can tell us?

Dr. POREMSKY. The anti-Communist groups began their activities a few years ago. Now they are not very strong, but they are growing stronger because the people realize the danger of this infiltration.

Mr. Malyshev mentioned that probably that is only a supposition, that the Mexican headquarters can be used or are used as bases for some kind of operation in the United States, too.

Mr. MORRIS. Yesterday, Senator, Dr. Poremsky said that his information from his own organization and from the organizations allied with him is to the effect that the Communist penetration of the Philippines is coming in via the American Communist Party, that taking advantage of their reservoir of good will toward the United States, it is the American Communists bringing communism into the Philippines. That was his testimony yesterday.

Senator HRUSKA. What thoughts would you have in that regard so far as Hawaii is concerned?

Dr. POREMSKY. I don't know this region. I have spent only a day at Waikiki Beach and that is all I know of Hawaii.

Mr. MORRIS. Well, is there anything more, Dr. Poremsky, that you feel the subcommittee should know in connection with your own experience and activities that might be helpful in our understanding the nature of the international Communist organization?

Dr. POREMSKY. Yes, I believe I can say something which may be of importance.

That is, in the fight of the free world against the Communists, the efforts are mostly made in such fields as diplomacy or economy or military strength. It is all right in all these fields, but what is lacking in the fight between the free world and the Soviet, is people doing something intelligent in the political field. I don't say there are no politicians in the free world, but they are mostly engaged in some local political issues and have no time to do something on a bigger international political scene opposing political communism and opposing communism systematically.

And that is the feeble point of the free world.

Mr. MORRIS. In other words, the free world has no will or disposition to systematically organize on an anti-Communist basis?

Dr. POREMSKY. That is so. There are no specific groups or organizations or people who are specifically doing the anticommunism job.

Mr. MORRIS. On the other hand, you know, as a matter of fact, do you not, that the Communists are organizing their Communist socialization in a systematic manner all over the world?

Dr. POREMSKY. They stress it on the economics; the diplomatic or military issues are of secondary importance. They are all supervised by politically trained people and they spend millions if not billions of dollars politically training people to fight the free world. So as to subvert the free world. And the free world is spending practically nothing for the training of political personnel necessary to fight Communists.

That is the main difference, and I believe that this fact explains the success of Communists. They have a strategical goal and they have been systematically doing their jobs for years and years with specially trained personnel, and the free world is opposing communism from time to time here and there without global plans and without trained personnel and without specific organisms or institutions to do it.

Mr. MORRIS. On an overall basis, do you think the Soviet or the free world is winning this global encounter?

Dr. POREMSKY. Being Christian, I believe in the final victory of the free world, but being Christian, I say we must do something very effectively and very rapidly.

Mr. MORRIS. Is time on our side or on the Soviet side in Europe?

Dr. POREMSKY. There is a race between this, too.

Mr. MORRIS. Is time on our side or is it on the side of the Soviets, as it is going now?

Dr. POREMSKY. If nothing happened in the free world to change the ineffectiveness over the free world, then the time will be for the Communists.

Senator HRUSKA. But there is some resistance, isn't there; I think all of us can appreciate that we are not as intense and insistent about our opposition to the Communists as they are in advancing their cause, but we can't say that the free world is entirely without effort and entirely without will, can we?

Dr. POREMSKY. No. But the anti-Communist efforts are of a local nature, and from time to time there are some local successes for the free world.

But on the global scale for this 40 years, they began as Lenin with a very small group of immigrants, like our organization right now, but after 40 years they dominate the earth, this encircles the world and 900 million peoples. That is the achievement of a small group during the 40 last years.

Senator HRUSKA. Dr. Poremsky, you have told us about the Saigon meeting which is now in progress or it finished yesterday if the schedule was followed.

Will you eventually and later have access to some reports of what happened there?

Dr. POREMSKY. We have a delegation there. Our two people assist in this conference in Saigon.

Senator HRUSKA. Would you prepare for the committee's use a summary and some comments on that meeting and make it available to the committee so that we may have the benefit of your comments on it?

Dr. POREMSKY. Yes, it can be done if that is—

Mr. MORRIS. You will be in touch through Mr. Malyshev?

Dr. POREMSKY. We may do the same for the Lima meeting.

Mr. MORRIS. I think we have referred several times to Mr. Malyshev during this testimony of Dr. Poremsky. I think it would be only proper if he should at this time identify himself.

Mr. MALYSHEV. I am Alexei Malyshev. I am the foreign relations section's representative of NTS in the United States.

Mr. MORRIS. You are here in the United States permanently?

Mr. MALYSHEV. Yes.

Mr. MORRIS. Whereas Dr. Poremsky seems to be traveling all over the world, Senator.

Senator HRUSKA. One other thing, Dr. Poremsky. You have mentioned the embassy, the Russian embassies in—

Dr. POREMSKY. In Indonesia.

Senator HRUSKA. Indonesia and one in Mexico City.

It wouldn't be necessary for you to do it here and now, but could you supply for the record a listing of the other Russian embassies in other nations in Asia and in South America, particularly, and the number of their staff?

Dr. POREMSKY. Yes, it can be done.

Mr. MORRIS. In that connection, yesterday Dr. Poremsky pointed out that from his observation and experience of the nature of the Soviet organization, the Soviet Government, these diplomatic representatives and trade representatives are espionage agents first and diplomats second.

That has been his experience and, as you know, Senator, that has been the experience of this Internal Security Subcommittee.

Dr. POREMSKY. It is known by the testimony of Petrov, Rastvorov, and Khokhlov about the specific character of the Soviet diplomats. But there is the other side of this story. I personally believe that many Communists, even members of the Communist Party, are in their hearts opposing the dictatorial rule and willing in their hearts to change, to take some other side.

So it was testified by Khokhlov. He was an MVD officer but nevertheless he changed his mind and has gone over.

It is possible that some people think this way, but not the whole population. What NTS is trying to do is to draw a line between the Government and the people and get the people inside Soviet Russia to take sides for or against government—for a revolutionary oppositional force, or with government. Because, before our organization and other organizations had started the operation behind the Iron Curtain, there was no possibility of such a choice for the citizens behind the Iron Curtain, and one of the main objectives of our propaganda behind the Iron Curtain is to give to all other citizens the possibility of cooperating with the Government or with some organized force against the Government.

Mr. MORRIS. I have no more questions, Senator. But I would like to thank Dr. Poremsky on behalf of the staff of the committee for the time he has made available to the subcommittee.

Senator HRUSKA. I would like also, on behalf of the subcommittee itself, to thank Dr. Poremsky. It is very fine of you that you are cooperating in this way.

Mr. MORRIS. Before adjourning, Senator, I would like to offer for the record two letters we have gotten from the Department of Labor



in connection with our inquiry in communism in the Harry Bridges unions. We have been doing some followup staff work and we received from the Department of Labor a letter dated April 22, 1938, which purports to be a ribbon copy document on file at the National Archives and Records Service from Secretary Perkins, who was at that time Secretary of Labor.

And we have a photostatic copy of a letter from James Hou—Mr. Rusher, could you spell that?

Mr. RUSHER. H-o-u-g-h-t-e-l-i-n-g. James Houghteling.

Mr. MORRIS. And this is dated April 15, 1938, addressed to Hon. Edward Cahill, District Commissioner.

These letters, while adding some light to our inquiry about the Harry Bridges case, Senator, tend to confirm some of Whittaker Chambers' testimony before the House Un-American Activities Committee with respect to Donald Hiss, the brother of Alger Hiss, which tends to refute statements Donald Hiss has made in connection with some of his assignments.

Senator HRUSKA. They will be accepted into the record.

(The documents referred to above will be found in a later volume of the subcommittee's hearings on scope of Soviet activity.)

Mr. MORRIS. I have no further questions, Senator.

Senator HRUSKA. Very well, the committee will adjourn at this time. (Whereupon, at 11:45 a. m., the committee adjourned.)

(A supplemental statement by Harry Gold, convicted atomic spy now in Federal penitentiary at Lewisburg, Pa., was ordered into the record of the subcommittee by Senator Roman L. Hruska at an open hearing August 15, 1957. Text of the statement follows:)

JULY 27, 1957.

#### STATEMENT OF HARRY GOLD

In regard to Soviet techniques for influencing sincere people, I note only my direct experience. It is proposed to—

(A) First, detail certain incidents which occurred during my personal association with Soviet agents and in the course of carrying out espionage for the Russians.

(B) Then, to show how these incidents fit into an overall pattern. Actually, this chronological sequence was also the manner in which my own awareness came into being, i. e., first the discrete, apparently unrelated, and (on the surface) not too significant events; then the much delayed understanding of their true import.

To begin:

1. Included in the first information on chemical processes which I obtained for the Soviet Union back in 1934-35 were methods for the manufacture of various "industrial solvents"; these chemicals are used in the formulation of a whole host of lacquers, varnishes, and synthetic finishes. I was told, "our people [the Russians] eat off rough, bare boards. You can help them to live a little better, a little more as humans should, by getting us this material." And along with that idea went something else: To get this data I had to steal it from my employer, Dr. Gustav T. Reich, the research director of the Pennsylvania Sugar Co. Dr. Reich was really more than an employer, he was always a kindly mentor, and a friend, to a boy just making a stumbling start in chemistry. So this added up to violating a trust—plus theft. (But none of that meant anything, it is all for a good end. The Pennsylvania Sugar Co. is not being hurt. No one is really hurt, only good is being accomplished.)

2. In February-March of 1937 a violent strike took place at the Pennsylvania Sugar Co. Some 600 men and women stayed in the plant under a state of actual siege for about 5 weeks; at least an equal number were outside. It was worth one's life to try to cross the picket lines; food was brought in by way of the Delaware River using motor launches (the plant is right on the waterfront).



At this time there were some 30 people working in the laboratories, and though we chemists and engineers were not directly involved, it was known from the beginning that we would be used to help operate the refinery, only one of Dr. Reich's staff refused to work—Harry Gold. Now, let it not be supposed that my motives were all pure. On the afternoon that the strike broke in its full fury, I wouldn't remain because I had a "hot date" that very evening; which prospect I was much loath to forego and then I was considerably confused and upset by the circumstance that Dr. Reich, when I made it plain (after some initial wiggling and weaseling) that I would not stay in the refinery, grew terribly angry (he actually banged a water glass so hard on top of the cooler that it cracked in his hand) and said, "You're through! Get out! But you'll never work as a chemist again—I'll see to that." I got (and ironically enough, as I was crossing the railroad yard in front of the plant, was narrowly missed by a brick hurled by a striker.) Now I was torn two ways: as one who had been reared to believe that being a "scab" in a strike was abhorrent, I was on the other hand faced with being denied further employment in the chemical field—where the Soviet Union wanted information. It was done, all right, but had I chosen the correct course? However, when I told my Soviet boss, a giant of a man known to me only as "Steve," what had occurred, he did not chide me at all. My Russian superior said he appreciated the turmoil through which I had just passed, yet I had to retain my self-respect—which would be forfeit if I worked during the strike. Steve reassuringly said that he doubted Dr. Reich's ability to carry out the blackballing threat and estimated that the research director was not vindictive, just angry. Steve added that even were the worse to come to pass and I could no longer work in the chemical industry, my efforts would still be utilized (in some unnamed fashion). (Here the Soviet Union was being forgiving and understanding, bearing up nobly under a loss—though actually Pennsylvania Sugar had been pretty well looted by this time. If all this sounds fantastically foolish and naive, all I can say is it was another day and age and I am relating it just as the event happened.)

As a matter of record, the union won the strike and one of the provisions of the settlement was that no one be fired for having stayed out; this included the laboratory, even though we never became union members. In fact, Dr. Reich treated me most agreeably when I returned and I rose fairly rapidly in the research setup.

3. In March–April of 1942 I was due to be drafted into the Army. I told my Russian mentor ("Sam," since identified as Semen Markovich Semonov) about this so we could make arrangements for my successor. Frankly, I had expected a "chewing-out," or a plea to use any means to stay out of the service and avoid disrupting our efforts at obtaining technical information. Instead I received a "Go, and God bless you" type of sendoff. The gist of Semonov's remarks was that the Soviet Union (not he, mind you but the Soviet Union) understood my desire to fight fascism (to me fascism was directly equal to anti-Semitism) as a frontline soldier and it was well realized that were I to avoid such duty, I could never again regard myself as an entire man. I ate it up.

Well, when I was rejected because of hypertension (April 20 (?), 1942) I rushed in to the commanding officer (Major Keough?) at the Lancaster Avenue Armory and pleaded to be taken into the Army. He said I was wasting his time. I made two subsequent efforts, first the Navy and then the Marines, but neither would look at a 4-F.

And I was welcomed back by Semonov—a Harry Gold all the more anxious to aid the Soviet Union in its struggle with the Nazis. I was ready to do any bidding, to obey any command.

4. This is a bit difficult to place in time. It did occur somewhere about 1943, but it also took place on many other occasions, both before and after this date; and in more or less the same form. I'm sure this technique was used beginning with my very first contact with a Soviet agent in 1935 (I started industrial spying for the Soviet Union back in 1934, but did not actually meet a Soviet agent till well over a year later.) Thus, in 1943 I was experiencing difficulty in getting information from Abe Brothman, an American chemical engineer. It was not that Brothman was unwilling to furnish data, but that he insisted on giving what we didn't want (i.e., his own work) and would not supply what we wanted (that is, chemical processes in successful operation in the United States—"successful operation" was defined as "making money" and that, curiously enough, was the Russian criterion; if a plant operated at a profit in the United States, then the exact process used was what the Soviets desired—they refused to hear about any theoretically better, but as yet untried method).

\* \* \* I had made some 3 or 4 trips in 1 week between Philadelphia and New York (after working a full day at the Pennsylvania Sugar Co.) and, on the last of these journeys. I was horribly tired again: Abe had nothing for me. A little later in the evening I met Semenov to report another failure and on this occasion he too appeared weary. We spoke of the inherent troubles in attempting to get individuals to supply technical information and of the many disappointments; of the necessary cajoling and flattering; of the importuning and of the deceit; of the promises never meant to be kept; of the outright threats—when required; of the dreary, but apprehensive, waiting on street corners for appointments never kept; of the whole discouraging business. It was deadeningly—dull, dirty, sullyng work Semenov said, and here we were, I a chemist, happiest when working in a laboratory, and he a mathematician and a mechanical engineer, both pursuing a shabby course we only despised, both longing just to be allowed to do the work we liked and for which we were trained. A dismal job, this espionage, but a vital job, one which had to be done, and by implication we were to be commended for sticking with it. Then, one glorious day in the future, Hitler would be destroyed, there would be peace on earth, and no such depressing endeavor would be required. Neat.

5. About this same time, 1943–44, and carrying through to 1945, Semenov and his successor "John" (since identified as Anatoli Antonovich Yakovlev) occasionally would introduce another theme. This related to Semenov leaving America to return to the Soviet Union. But it was not "Goodbye," I was told. Surely, when it was all over, this dreadful war, that is, all nations would be friends again and people could travel freely; then I could openly go to the Soviet Union and in Moscow (yes, this city was special) would renew acquaintance with all my old Soviet "friends" (by which was meant the men who had directed my espionage activities). Oh, we would have a fine old reunion.

And I remember Yakovlev's enthusiasm—early in the spring of 1945—over the impending organization of the United Nations in San Francisco. Actually, the subject came up before I was due to meet Klaus Fuchs in Santa Fe in June of that same spring and Yakovlev was reminding me of the need for early travel reservations what with all the people heading for the west coast about that very time. Please I am not faulting the U. N. here. It is the only hope for world peace. All I wish to point out is the attempt to foist upon me the idea of: "We're all going to be friends forever right soon now. So what's it matter if meanwhile I engaged in a little illegal activity. Just a dab of espionage, huh?) \* \* \*

6. There were a great many other manifestations of the Russian devices for influencing me, some in constant use during the 11 active years of my spying, from 1935 to 1946. I mention just:

(a) If the Nazis triumph, the Jews are done. Extermination. The Soviet Union is the one unyielding opponent of Hitler's fascism. Therefore, anything that strengthens the Soviet Union helps save the Jews. O. E. W. This was in reality the big drive that kept me so resolutely working in espionage. Yes, I'm fully aware of the loopholes in such a stand and I was conscious even then of the illegality of many of my actions, but I continued to put all doubts aside 'til 1946 (when for about 3 years the contract with me was abandoned and I saw no Russians).

(b) Contempt for paid agents: at times I acted as paymaster and I was constantly reminded that, while people who gave information for money were to be valued, Harry Gold, motivated solely by idealism, was a much more laudatory character (and the idea here was not to save a few dollars).

(c) Contempt for the Communist Party of the United States: I was told, "Hah! you call this a revolutionary party? These fools! What do they think they accomplish by standing on street corners and selling the Daily Worker? (This was a really slick shot, one with plenty of reverse English on it—you see, I was never a Communist Party member, in fact, I always felt a revulsion at the thought of joining it.) The one quote given here, as I recall it, dates from late 1942, when we were having more vexation with Abe Brothman and he kept talking of wanting to give up espionage and go back to the Communist Party.

(d) Open and direct flattery:

Incident 1. Three people are involved. About December 1942 or January 1943, a meeting between Abe Brothman, Semenov, and myself was arranged. It took place in a suite of rooms at the Hotel Lincoln in New York City (45th Street and 8th Avenue?). I introduced Abe to "George" (Semenov) and the latter, as an "important visiting Soviet official," praised Abe's most recent technical data as being equivalent to a "full brigade of men" (or was it "several brigades"? my memory is dimming, and a side note on the care used, viz, the alias "Sam" with

me, and "George" with Abe). The real purpose of this rendezvous was to get Abe to abandon his own firm (the recently formed Chemurgy Design Corp., in which he was a partner with two other men, Henry Golwynne and Artie Weber) and renew working for any large American chemical process company, preferably a petroleum refinery—so the Soviets would have the latest American techniques again fed to them (as they had when Abe was employed by the Hendrick Co.). What an awesome respect they had for the technical ability of the United States, and how the Russians worshiped largeness in United States corporations.

Incident 2. This has been given much publicity. It was the award to me of the "order of the Red Star" in about October-November of 1943. Just one point here. In December of that same year I was asked ("asked," mind you) would I accept the most important assignment any agent had ever had, one where I would have to think 3 or 4 times before I uttered any word or made any move, and in January of 1944 I met Klaus Fuchs.

(e) The human touch: In the middle of 1942 I was trying desperately to get Abe to assemble some badly wanted information on the design of chemical process mixing equipment. After several fruitless trips to New York on successive days, I met Semenov and told him, "Saturday is it. Abe promised faithfully."

"The hell with him," Semenov stormed. "He [Abe] won't have it ready this Saturday or the next one or for months to come." (An accurate estimate. The material was finally sent to the Soviet Union in November 1942.) Semenov continued, "Look at you! You not only look like a ghost, you are one. What must your mother think? Come." And we went to a quiet restaurant where I had a sandwich and a couple of drinks; then Semenov put me in a cab, took me to Penn Station, and insisted that I buy a parlor-car ticket to Philadelphia, and left me with firm instructions to stay home over the weekend. Nothing really. Just a decent concern (it seemed), and it worked so beautifully with me.

Also, on my part, I was enjoined to be certain that, when I visited any of my sources of information, to regularly bring along a small gift. I was told to give much thought to this matter and to make each gift (be it book, wallet, flowers, candy) reflect a genuine liking and not appear just a routine courtesy gesture.

(f) In the very beginning, on the occasion of my first meeting with a Russian contact (about October 1935), this man, "Paul," wanted a "history" of me and my family: all I knew, from my earliest recollections—and going back before my birth to the origins of my father and mother (and their beliefs). Then later, I in turn submitted careful "personality evaluations" on each of my primary (American) sources of espionage data, care, and I always was given to understand that no decision was made by my immediate superior above (except for the most humdrum items). There was ever the reply, "I'll talk it over with our people." Yes, there must have been a committee.

This ends phase 1 of this writeup, the detailing of certain incidents. There is more that could be related, but to get to, as Somerset Maugham has put it, "The summing up":

The overall pattern is the deceptively simple one of, "Tell 'em what they want to hear"—but because of its obviousness, it disarms and thereby becomes tremendously effective. The simplest and most used idea is to espouse an incontrovertibly decent cause, one really of solid worth and undeniably correct. In my case, the ready-made one of anti-Semitism. Did I have a horror of anti-Semitism? So did the Soviet Union—actively so (as far as the face was presented to me). And, as with a symphony, there are minor themes, all building up to the crescendo of the coda. Such are:

(1) Let's start them [the gulls] in a small way, any way at all, but let's start. Have them get the habit of working for the Soviet Union.

(2) Bolster up the [phantom] of the courageous individual who dares disagree, the man of true moral fiber \* \* \* and from there one can easily go on to a lack of respect for the properly established procedures and authority \* \* \* and then, inevitably, to take matters into one's own hands.

(3) Feeding the individual's self-esteem: This appears so plainly a sucker play, that it doesn't ever seem likely to succeed. But see how nicely it was accomplished. Me and my lofty idealism and let's not forget the neat backspin on the item of contempt for the Communist Party of the United States.

(4) Reaction to kindness: This doesn't have to be anything big or of great moment and, preferably, little, if any, monetary value should be involved. We humans seem to most appreciate the small, considerate, selfless gestures and such an event binds one even closer to the donor.



(5) Where the Russians positively wanted to make certain, they just crashed ahead with blunt, out-and-out flattery. This works too, because a person won't believe that anyone would try such a brash approach. It's as if a man's closest friend were to say (for no apparent reason), "I'm going to kill you," and forthwith does so—the victim would probably laugh and turn his back at just the moment before the tragic event.

The last element in the Soviet structure requires a place by itself, right along with the overall pattern given earlier (it's too important, especially right now, to be relegated to a minor theme status). I refer to the Russians dwelling on the prospect that all nations would live in peace. It's sort of, "Look, Mom, no brass knuckles," gambit. Plus, "See, I smile and make jokes—Ergo, I'm no monster; I'm human." This is the deadliest of all.

But, remember: "Tell 'em what they want to hear."

With this goes also the decision that I was always to regard myself as an American citizen, working under cover for the Soviet Union solely because of the obstructive tactics of industrialists and politicians. Even that much-belabored trip to Moscow carried with it the explicit understanding that I was to return to the United States. The Russians nurtured this idea most carefully: Harry Gold—loyal American. To me the true horror underneath "buying" the Soviet way of life resides in the inevitable, completely inexorable demand for a payment—but the currency in use is the human soul and there is the awful corollary, the fact that a man becomes willing, even eager, to do any bidding, no matter how loathsome.

I am aware that the portrait given here of my reactions to the Soviets' maneuvering of my personality is delineated in harsh strokes. Looking back, as I said before, it does seem as if it were another day, another age, almost another world. Yet I know what occurred and what I did.

HARRY GOLD, *No. 19312.*

LEWISBURG, PA., *July 27, 1957.*



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NOTE.—The Senate Internal Security Subcommittee attaches no significance to the mere fact of the appearance of the name of an individual or an organization in this index.

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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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## HEARINGS

BEFORE THE

SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

FIRST SESSION

ON

SCOPE OF SOVIET ACTIVITY IN THE  
UNITED STATES

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APRIL 9 AND 10, 1957

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**PART 59**

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Printed for the use of the Committee on the Judiciary



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SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

TUESDAY, APRIL 9, 1957

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY ACT  
AND OTHER INTERNAL SECURITY LAWS  
OF THE COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to notice, at 10:30 a. m., in room 424, Senate Office Building, Senator James O. Eastland (chairman of the subcommittee) presiding.

Present: Senators Eastland, Jenner, and Hruska.

Also present: Robert Morris, chief counsel, William A. Rusher, associate counsel, and Roy C. Garcia, investigator.

Chairman EASTLAND. The committee will come to order.

Mr. MORRIS. Before the meeting gets underway, I would like to mention for the record that this hearing is being held this morning in connection with the subcommittee's inquiry into the flow of foreign funds into the United States, which has been amplified recently by the committee's efforts to identify the anonymous sources, and that at the same time, has been taking money from the United States.

On February 12, 1957, you, sir, as chairman of the Internal Security Subcommittee, sent a letter to Mr. Armstrong, the witness here this morning, and Chairman of the Securities and Exchange Commission, to ask for considerable information on the Swiss trusts.

Mr. Armstrong answered that with a letter dated April 2, 1957. I would like to offer for the record as a prelude to today's hearing, Senator, your letter of February 12, 1957, together with Chairman Armstrong's reply of April 2, 1957.

Chairman EASTLAND. They will be admitted.

(The letter of the chairman, and the reply thereto were marked "Exhibit Nos. 453 and 453-A" and read as follows:)

UNITED STATES SENATE,  
COMMITTEE ON THE JUDICIARY,  
SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION OF  
THE INTERNAL SECURITY ACT AND OTHER INTERNAL SECURITY LAWS,  
*February 12, 1957.*

HON. J. SINCLAIR ARMSTRONG,

*Chairman Securities and Exchange Commission,*

*Washington, D. C.*

DEAR MR. ARMSTRONG: The Senate Internal Security Subcommittee of the Senate Judiciary Committee has been, for the last 6 months, making a study of possible subversive forces buying anonymously into American industry to the detriment of the internal security of this country. The subcommittee has prepared an interim report on this which will be released in the near future.

One device that is of particular concern to the subcommittee has been that of Swiss trust with which I know that you are acquainted. We are carefully look-

ing into the immediate problems posed by this banking device which makes it possible for an anonymous position to flourish in American industry. I wonder if you would advise us at an early date whether or not the Swiss trust is now posing problems to the Securities and Exchange Commission. It would be appreciated if you would inform this committee of Congress of the general extent of anonymous ownership in American corporations. Have particular instances of this come to the attention of the Exchange? Also we would like to know whether there are any examples found of what are known as numbered ownership and fingerprint ownership of holdings in American corporations.

The subcommittee is greatly concerned lest persons allied with or friendly to the Soviet Union or other alien forces hostile to the United States are, by the device of financial holdings, infiltrating our defense corporations.

I write this letter to ask you for an early reply to all of the above.

Sincerely yours,

JAMES O. EASTLAND,  
*Chairman, Internal Security Subcommittee.*

---

EXHIBIT No. 453-A

SECURITIES AND EXCHANGE COMMISSION,  
*Washington, D. C., April 2, 1957.*

HON. JAMES O. EASTLAND,

*Chairman, Internal Security Subcommittee, Committee on the Judiciary,  
United States Senate, Washington, D. C.*

DEAR SENATOR EASTLAND: This is with further reference to your letter of February 12, 1957, with respect to anonymous ownership in American corporations and the problems posed by so-called Swiss trusts.

We would like to say at the outset that the primary responsibility of the Commission is the administration and enforcement of the Federal securities laws and information of the character to which you refer would ordinarily be developed by us only insofar as it is obtained in the administration of these acts, either from documents filed with us or in the course of investigations of actual or suspected violations of such acts.

You ask three principal questions—first, whether or not Swiss trusts are posing problems to the Securities and Exchange Commission; secondly, the general extent of “anonymous ownership” in American corporations, and whether particular instances of this have come to the attention of the Commission; and thirdly, whether we have found examples of what are known as “numbered ownership and fingerprint ownership” of holdings in American corporations.

Swiss trusts and similar financial institutions and devices have created a serious problem for the Commission in the enforcement of a number of the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. The problem arises from the fact that, as you realize, under the laws and customs of Switzerland, Swiss banks and similar institutions do not disclose the names of the persons for whom they are acting. Similar problems arise in connection with American securities held in the names of banks, brokers, or other institutions in other foreign countries, since such institutions are not subject to the jurisdiction of this Commission and there is no way in which we can require them to disclose the identities of their principals if they do not choose to, or are under instructions from their principals not to do so.

It is often important for the Commission to ascertain the identity of the owners of securities of American corporations in order properly to administer and enforce the Federal securities laws. For example, section 16 (a) of the Securities Exchange Act of 1934 requires every person who is directly or indirectly the beneficial owner of more than 10 percent of any class of any equity security which is registered on a national securities exchange, and every director or officer of the issuer of such a security, to file certain reports of his holdings of any equity security of such issuer and of changes in such holdings. Inability to ascertain the identity of the beneficial owners of securities of American corporations held by various foreign financial institutions makes it difficult, in some cases, to determine whether or not persons in fact subject to the requirements of section 16 (a) are complying with these requirements.

The Commission's proxy rules, issued pursuant to section 14 (a) of the Securities Exchange Act of 1934, require, among other things, a disclosure to

stockholders in proxy statements in connection with the election of directors, of securities of the issuer beneficially owned by directors and nominees for that office and, in certain cases, beneficially owned by associates of such persons, together with the interest of such persons and their associates in material transactions with the issuer. In the case of a proxy contest for the election of directors all participants in the contest are required to furnish rather detailed information about themselves and their interests in securities of the issuer. The term "participant" is broadly defined in the rule to cover persons and groups who solicit proxies, and persons who finance or otherwise enter into arrangements with such groups to induce the purchase or voting of securities in support of, or in opposition to, a participant. In order to obtain for investors the disclosures required by these provisions, it is often necessary to ascertain the amount of securities held beneficially, directly or indirectly, by specified persons, or to ascertain the identity of persons engaged in purchasing or acquiring securities which will be voted for one side or the other in a proxy contest. The holding of voting securities in the names of foreign financial institutions which do not reveal the identity of their clients in some instances complicates the task of obtaining the required disclosure.

Section 5 of the Securities Act of 1933 requires that securities offered in the United States be registered with this Commission by the filing of a registration statement and that prospectuses meeting the requirements of the statute be delivered to investors purchasing such security, unless an exemption from registration is available. Frequently the question of whether or not an exemption is available may depend upon the identity of the person for whose account the securities are being offered. Thus, section 4 (1) of the Securities Act of 1933 exempts from the registration requirements, transactions by any person other than an issuer, underwriter, or dealer, and transactions by an issuer not involving any public offering. The term "underwriter," as defined in the statute, includes any person who has purchased securities from an issuer or controlling stockholder with a view to distribution or who sells for such a person in connection with a distribution of any security or who participates in such an undertaking. Where securities are distributed in this country on behalf of a Swiss bank or other foreign financial institutions, a question immediately arises as to whether or not such institution is an underwriter within the meaning of the statute, or whether it is acting for a person who is such an underwriter, and this in turn may frequently depend upon the identity of the person for whom it is acting. If such person is an issuer, underwriter, or controlling person of an issuer, registration may be required, while if the person for whom the institution is acting is in none of these categories, the transaction may be exempt from registration. In some instances an exemption has been claimed and the Commission has had great difficulty in determining whether or not such claim was justified and in assembling evidence which would enable it to show in court that the exemption was not available.

The identity of beneficial owners of securities may also become material in connection with the antifraud and antimanipulative provisions of the statutes. For example, under the antifraud provisions of the statutes and the Commission's rules, it may be unlawful for a person to purchase or sell securities without disclosing so-called inside information—that is, material facts of which such person has obtained knowledge because of his relationship to the issuer. In such instances the identity of a purchaser or seller for whom a foreign financial institution is acting may become material in determining whether or not such person is in possession of inside information and is under a duty to disclose it.

Under the antimanipulative provisions of section 9 of the Securities Exchange Act of 1934, it is unlawful for any person, for the purpose of creating a false or misleading appearance with respect to the market for a security, to engage in so-called wash sales or matched orders—that is, transactions which involve no change in the beneficial ownership of the security or substantially simultaneous purchases and sales of such security. It is also unlawful under this provision to effect a series of transactions for the purpose of creating actual or apparent active trading or raising or depressing the price of a security for the purpose of inducing the purchase or sale of such security by others. Where securities are purchased and sold by or on behalf of foreign financial institutions acting for undisclosed clients, it may be very difficult to determine whether or not the client may have violated the foregoing provisions of law.

During the past year or so we have found increasing evidence of the use of foreign trusts and institutions in transactions which may violate these laws. For example, in 3 transactions which occurred in the middle of 1956, over \$4



million worth of speculative securities were distributed to the American public on behalf of several Swiss trusts in probable violation of the registration and antifraud provisions of the Federal securities laws. The Commission is now actively investigating a number of such cases, including the ones referred to above. In some cases it is possible for the Commission, by lengthy and difficult investigation, and by following all leads available in this country, to obtain direct or circumstantial evidence with respect to transactions involving foreign trusts or other financial institutions where violation of the Federal securities laws may exist. In some of these situations, however, we have been so far unable to ascertain the full facts.

The Commission has also encountered, within the last year or two, instances where Swiss financial institutions appear to have been utilized in major proxy contests for the purpose of accumulating shares which are subsequently acquired by one or more participants in such contests. It has been suggested that the fact that foreign financial institutions are not subject to the margin rules of the Federal Reserve Board may be a principal reason for their use in these situations. Another reason advanced for such use is that by employing foreign institutions a person may avoid disclosure of his activities or his interest. We feel, however, that the problem has been perhaps less serious in the proxy area than in the area of enforcement of the registration and antifraud provisions of the statutes.

With respect to the extent of anonymous ownership in American corporations, American corporation law requires that shares be registered in the name of some identified person, firm or corporation. Bonds and other debt securities are very frequently made payable to the bearer and the corporation is entitled to treat any person in possession of the security as the owner. Bearer stock certificates are rather commonly used in Europe and in other foreign countries but are rarely encountered in American corporation law. Thus wholly anonymous ownership of stock in American corporations is not a factor, as it is in Europe.

However, a person in whose name shares of American corporations are registered frequently holds them as agent, nominee, or trustee, for some other person who is the beneficial owner. Banks, trust companies, and corporations customarily register corporate stock owned by them in the name of a nominee. In addition, a large number of shares, particularly of those issues which are actively traded on securities exchanges, are registered in so-called street names—that is, in the names of securities brokers or dealers who hold the securities for the account of their customers. The usual reason for holding shares in the name of a nominee or a securities firm is to facilitate the transfer of the security if the owner desires to sell.

According to studies made by the Brookings Institution in 1952 and by the New York Stock Exchange in 1956, approximately 10 percent of the shares of publicly held corporations in the United States were registered in the names of nominees, and about an additional 10 percent were registered in the names of brokers and dealers. About 15 percent more were held in the names of fiduciaries.

Where the registered owner is located in the United States, identification of the beneficial owner where necessary is usually not a serious problem for the Commission. The names of persons who hold securities as nominees for particular banks and trust companies are generally known and the Commission is advised of them. The regulations of the Commission require brokers and dealers subject to its jurisdiction to maintain records showing, among other things, the name and address of the beneficial owner of all securities held by such brokers and dealers for the account of customers, and these records are available for inspection by the Commission at any time.

Where the registered owner of a security is located in a foreign country, these means for ascertaining the identity of the beneficial owner are not available. Accordingly, we have no information as to the extent to which securities registered in the names of persons abroad are beneficially owned by such persons and the extent to which they are held for the account of others. According to the studies of the New York Stock Exchange referred to above, about 3½ percent of the shares of publicly owned corporations in the United States were registered in the names of foreigners in 1956. This is an increase from about 1 percent reported in the 1952 study by the Brookings Institution.

Data collected by the Treasury Department with respect to capital movements furnish some indication of the extent to which American corporate securities are purchased and sold by foreigners. According to these studies during the year 1955 foreigners purchased an aggregate of \$1,561 million of domestic corporate stocks and sold an aggregate of \$1,434 million, making a net purchase of \$127 million. During this period, residents in some countries were net sellers and in



others, particularly Switzerland, were net purchasers. In 1955 residents of Switzerland purchased a total of \$571 million of domestic corporate stocks, and sold an aggregate of \$460 million, resulting in net purchases of \$111 million. Net purchases of the rest of Europe were \$34 million.

Foreign purchases of corporate stocks increased in 1956, aggregating \$1,618 million and sales decreased to \$1,366 million, resulting in net purchases of \$252 million. During 1956 residents of Switzerland increased their purchases to \$590 million and their sales to \$472 million, resulting in net purchases of \$118 million. Other European countries appreciably increased net purchases which rose to \$113 million.

Finally you inquire as to whether there are any examples of what are known as numbered ownership and fingerprint ownership of holdings in American corporations. We have found no examples of these and believe that it would not be permitted by American corporation law. It is, of course, possible that foreign financial institutions which are registered owners of American securities identify the accounts of the beneficial owners for whom they hold securities by these means, but these institutions do not inform us as to the manner in which they identify accounts. A few instances have come to our attention where arrangements have been made for the issuance of so-called depository receipts evidencing a beneficial interest in the shares of American corporations. Under such arrangements shares are acquired by a foreign or domestic bank which issues depository receipts evidencing ownership of such shares, which depository receipts are bearer instruments not registered in the name of any person. We understand that such arrangements are usually entered into in order to permit trading in the shares of American corporations on foreign stock exchanges such as the Amsterdam Stock Exchange or the Brussels Stock Exchange, upon which exchanges securities are customarily traded in bearer form. We do not believe that the amount of American securities held under such arrangements is significant.

We hope that the foregoing will be of some help to you, and, if we can be of any further assistance, please do not hesitate to call upon us.

Sincerely yours,

J. SINCLAIR ARMSTRONG, *Chairman.*

Mr. MORRIS. Senator, we have here this morning, five commissioners—

Mr. ARMSTRONG. That's right.

Mr. MORRIS. And five other officials of the Securities and Exchange Commission.

Mr. ARMSTRONG. I would like to introduce them, if I may.

Mr. MORRIS. I think that would be very helpful.

Mr. ARMSTRONG. Mr. Chairman, and Senator Jenner, I am J. Sinclair Armstrong, from Illinois, Chairman, and I am accompanied today by four fellow Commissioners: A. Downey Orrick, of California; Harold C. Patterson, of Virginia; Earl F. Hastings, Arizona; and James C. Sargent, New York.

I am also accompanied by Frank G. Uriell, Executive Assistant; on my left: Philip A. Loomis, Jr., Director, Division of Trading and Exchanges, who will participate in this testimony; Paul Windels, Jr., Administrator for the New York regional offices, who will also participate; Thomas G. Meeker, our General Counsel; Irving Pollack, Assistant General Counsel; William E. Becker, Director of Personnel; William D. Moran, Assistant Director—excuse me, Assistant Regional Administrator, New York regional office.

Then, by the legal assistants of the four Commissioners: James T. Phelan, who is behind you, Senator Eastland, assistant to Commissioner Hastings.

Charles Youngblood, assistant to Commissioner Patterson.

Mr. Ledes, assistant to Commissioner Sargent, and—have I overlooked anyone?

Oh, yes, Mr. F. Bourne Upham, Assistant Executive Director of the Commission.

Chairman EASTLAND. We are glad to have all you gentlemen with us.

Mr. ARMSTRONG. We are pleased to be with you gentlemen and to participate with the Internal Security Subcommittee of the Committee on the Judiciary. We regard this as a very great opportunity to be of service to the Senate, and as you are well aware, Senator Eastland, the Commission is an independent agency and we regard ourselves as an arm of the Congress, and we are very delighted to be with you and help in any way we can.

(Discussion off the record.)

Mr. ARMSTRONG. We also have with us Mr. Harry Heller, Assistant Director of the Division of Corporation Finance.

I have a prepared statement which would be not too long to read, if you desire.

Chairman EASTLAND. You may proceed, Mr. Armstrong.

### STATEMENT OF J. SINCLAIR ARMSTRONG

Mr. ARMSTRONG. We, as I mentioned, are happy to have this opportunity to appear before this subcommittee in connection with your inquiry concerning the use of foreign financial institutions and other foreign devices to acquire securities of American corporations, and the problems which result from these acquisitions.

The Securities and Exchange Commission is charged with the administration and enforcement of the Federal securities laws and, in the performance of these functions, we have encountered certain problems arising from the purchase or sale of securities in the United States by or on behalf of persons or institutions in foreign countries. We recognize that the subject matter of your committee's inquiry is substantially broader than the questions presented under the Federal securities laws, involving as it does problems of international finance and capital movement, as well as questions of national security. We would like, however, to tell you about some of the problems which we encounter in the fields which are within our jurisdiction.

Speaking in broad terms, the purchase or sale of securities in the financial markets of the United States by or on behalf of foreign interests presents for the Commission two principal problems. In the first place, persons engaged in such transactions may violate the Federal securities laws and we may be unable to obtain the necessary evidence or to punish the violators simply because they are beyond our territorial jurisdiction. In the second place, where transactions are initiated by or on behalf of institutions in foreign countries, we may be unable to ascertain the identity of the persons on whose behalf the transactions are consummated, who may be either Americans or foreigners, and we are thus handicapped, both in obtaining the disclosures contemplated by the Federal securities laws, and in determining whether or not the transactions in question involve violations of these laws.

Chairman EASTLAND. Wait a minute, please, sir.

Would you give Senator Hruska a seat there?

Mr. MORRIS. Yes, sir.

Mr. ARMSTRONG. Good morning, Mr. Hruska.

Senator HRUSKA. Thank you, Mr. Chairman.

Mr. ARMSTRONG. As I will point out in a minute, it frequently happens that a determination as to whether or not a particular transaction is a violation of the Federal securities laws depends upon the identity of the persons involved in the transaction.

The first problem that I mentioned—the difficulty in obtaining jurisdiction over persons in foreign countries who sell securities into this country in violation of our laws—has been of concern to the Commission practically since the beginning of the Commission's existence, which was in 1934. This problem has attained its greatest magnitude in connection with the sale of securities from Canada because of ease with which securities transactions may be consummated across the Canadian border, the lack of exchange and currency restrictions and the interest of American investors in Canadian securities, and the investment opportunities which they present. According to the latest available Government figures, the value of Canadian securities held by American investors at the end of 1955 amounted to over \$3,600 million, of which over \$200 million was acquired in 1955. The present status of our enforcement problems with respect to Canadian securities is described on pages 202 to 205 of the 22d Annual Report of the Securities and Exchange Commission, submitted to the Congress on January 3, 1937, and if I may suggest, Mr. Chairman, I believe it would be helpful to the record if those brief pages from our annual report would be included in the record.

Chairman EASTLAND. Yes, sir. They will be included in the record at this point.

(The 22d Annual Report, Securities and Exchange Commission, 1956, pp. 202–205, was marked "Exhibit No. 454" and is as follows:)

#### ENFORCEMENT PROBLEMS WITH RESPECT TO CANADIAN SECURITIES

In general the initiation and conduct of investigations with respect to violations which have their origin in Canada parallel other enforcement procedures. The principal difference arises from the territorial limitations of the Commission's authority and the fact that in a large majority of such cases the evidence is located, as are the violators, in a foreign country. The Commission staff cannot examine these persons under oath or inspect their books and records nor is it possible to obtain proof of the falsity of their representations concerning the issuers of the securities being offered for sale. Even where evidence is available, sanctions such as criminal or civil prosecution or administrative proceedings cannot be effective unless personal jurisdiction over the defendants is obtained. The difficulty in obtaining the requisite personal jurisdiction is highlighted by the narrow construction given by the Canadian courts to the Supplementary Extradition Convention between Canada and the United States. In the first case, *U. S. v. Link and Green* (3 D. L. R. 386 (1955)), brought under the new extradition arrangements which had been designed to permit extradition from Canada of persons engaged in the fraudulent sale of securities by mail and telephone to United States residents, the Canadian courts denied extradition. At the conclusion of the 5 weeks hearing, the extradition judge announced that he was satisfied that a *prima facie* case of fraud had been made out against the defendants involved, but nevertheless denied the extradition request because he did not approve of the extent of the evidence which might be admissible in the prosecution of these defendants in the United States. Application was made to the Supreme Court of Canada for leave to appeal the decision, and that application was denied by the court for lack of jurisdiction, *U. S. v. Link and Green* (1955) (S. C. R. 183). Negotiations aimed at a solution of the problem have been continued through the Department of State. Meanwhile, enforcement efforts are necessarily dependent to a very large degree upon the cooperation of appropriate Canadian Federal and Provincial officials which, as mentioned in this Report under "Enforcement Program," has been excellent.



Despite these difficulties, the Commission and other Federal agencies have made aggressive efforts to cope with the overall situation. Hundreds of investigations have been made, injunctions have been secured whenever jurisdiction over the violator could be obtained, a substantial number of criminal indictments have been entered, and over 80 postal fraud orders have been issued. A central clearing house for information concerning violators has been established within the Commission, whereby information in the possession of numerous law enforcement agencies is compiled and exchanged.

Early in 1956, there was reason to be optimistic concerning the progress being made. Available information indicated that fraudulent offerings from Canada had decreased very substantially since the peak of 1949-52, both in number and in magnitude. This progress was the more encouraging because the past year or two have been a period of activity in the securities market and relatively high public interest in speculative securities when an increase rather than a decrease in the fraudulent offerings from Canada might reasonably have been anticipated.

The favorable trend which was noted earlier in the year was reversed in the succeeding months of 1956 and is a cause for serious concern. The recent instances of fraudulent activity seem to be largely attributable to a small coterie operating in western Canada. There is reason to believe that this newly troublesome group includes notorious "stockateers" from Eastern Canada who were forced to discontinue activities there because of the vigilance of Quebec and Ontario authorities.

The migration of persons engaged in illegal sales activities from one province to another in Canada creates a problem for the Canadian authorities who have been vigorously cooperating with the Commission; and points up the inadequacy of provincial regulation to bring this illegal activity under control. The limitations of provincial law did not, however, prevent effective action by Canadian provincial authorities against 6 broker-dealers and 3 securities issuers whose registrations were either canceled or not renewed upon expiration following complaints submitted by the Commission. In particular, the cooperation of the provincial authorities of Ontario and Quebec and their positive attitude toward the enforcement of their respective securities regulations have contributed greatly to the measure of success that has resulted from the cooperative enforcement program. In this connection, enactment of new legislation has enabled Quebec authorities to take forceful measures to halt fraudulent sales activities in that province. The Quebec Legislature which created the Securities Commission for that province was fully aware of the need for its Commission to be in a position to deal effectively with securities violators and therefore armed it with summary power to penalize and halt the activities of those persons who did not comply with the requirements of the law. It should also be mentioned that the Canadian provincial and Federal authorities have continued to cooperate with the Commission by making available evidence from their official files for use in proceedings initiated by the Commission, as well as by furnishing the assistance of members of their staffs in some instances. The Commission has cooperated with and assisted Canadian authorities by obtaining and making available evidence necessary for enforcement actions in that country.

In April 1956 the Commission revised its Canadian restricted list, initially issued in September 1951, which contains a list of Canadian issuers whose securities the Commission has reason to believe recently have been or currently are being distributed in the United States in violation of the registration requirements of the Securities Act of 1933. The Commission's release published the list also, and for the first time specified the conditions under which a name would be deleted from the restricted list. Deletions are effected after a reasonable time if it appears that the issuer has ceased to exist and there appears to be no trading in the securities in the United States. Deletions may also be made upon compliance with the Federal securities laws by effective registration under the Securities Act of 1933, or qualification for an exemption under the Commission's regulations. Normally, a security will not be removed from the list until at least a year after the unlawful distribution is completed absent an appropriate filing under the Securities Act. In the originally revised restricted list the names of 79 issuers no longer in existence were deleted and the names of 30 issuers were added, making a total of 135 issuers on the restricted list. In June 1956 the first supplement to the revised list was issued, adding the names of 14 Canadian issuers. It is the intention of the Commission to issue additional current supplements as the need appears, in keeping with the primary function of the list to



put brokers and dealers, as well as the investing public, in the United States on notice of the fact that securities of Canadian issuers named thereon appear to be the subject of illegal distributions.

The list, even as supplemented, does not purport to include all Canadian securities being illegally distributed in the United States. It does serve as notice with respect to the securities of the issuers named which have come to the attention of the Commission. Before executing transactions in such securities, brokers and dealers are expected to satisfy themselves that any such security purchased by them for resale or acquired in the execution as broker of a customer's order is not a part of the unlawful distribution, since otherwise the broker or dealer himself may be regarded as participating in an unlawful distribution. The list, among other things, discourages a particular technique of illegal distribution by which investors in the United States are solicited to place orders with their own brokers or dealers instead of directly with Canadian brokers, and the securities being distributed are used to fill the resulting orders from brokers and dealers in the United States. The current list is as follows:

## CANADIAN RESTRICTED LIST

[In effect October 11, 1956]

Canadian issuers whose securities the Commission has reason to believe recently have been distributed or currently are being distributed in the United States in violation of the registration requirements of the Securities Act of 1933.

Alba Explorations Limited	Cob-Sil-Ore Mines Limited
Algro Uranium Mines Limited	Colonial Asbestos Corporation Ltd.
Alminster Oils Limited	Consolidated Cordasun Oils Ltd.
Amshaw Porcupine Mines Limited	Consolidated Peak Oils Limited (formerly Peak Oils Limited)
Antimony Gold Mining and Smelting Corporation Limited	Consolidated Quebec Yellowknife Mines Limited
Appollo Mineral Developers Inc.	Consolidated Thor Mines Limited
Ar-Can Limited (formerly Transvision-Television (Canada) Limited)	Continental Potash Corporation Ltd. (formerly Western Potash)
Armour Uranium and Copper Mines Limited (formerly Naneek Mines Ltd.)	Continental Uranium Corporation Ltd.
August Porcupine Gold Mines Limited	Copper Island Mining Company Ltd.
Augdome Exploration Limited	Copper Prince Mines Limited
Aunite Mining Corporation Limited	Cordan Cobalt Mines Limited
Barbary Gold Mines Limited	Cove Uranium Mines Limited
Bar-Fin Mining Corporation Limited	Crangold Mines Limited
Bargis Mines Limited	Dalo Oil and Gas Limited
Barvin Mines Limited	David Copperfield Explorations Limited
Basic Minerals Limited	Dencroft Mines Limited
B. C. Metal Mines Limited	Derrick Oil and Gas Company Ltd.
Beaucoeur Yellowknife Mines Limited	Desmont Mining Corporation Ltd.
Bibis Yukon Mines Limited	Detomac Mines Limited
Bli-Riv Uranium and Copper Corporation Limited	De Ville Copper Mines Limited
Britco Oils Limited	Docana Oils and Mines Limited
Brunhurst Mines Limited (formerly Porcupine Peninsula Gold Mines Ltd.)	Dolmac Mines Limited
Caldina Oils Limited	Dougron Gold Mines Limited
Calumet Uranium Mines Limited	Dubar Exploration Limited
Cameron Copper Mines Limited	Dupont Mining Company Limited
Camoose Mines Limited	Eastwebb Mines Limited
Camrose Gold and Metals Limited	Edson Oil Company Limited
Canso Mining Corporation Limited	Export Nickle Corporation of Canada Limited
Casa Loma Uranium Mines Limited	Falgar Mining Corporation Limited
Cavalcade Petroleums Limited	Famous Gus Uranium Mines Limited
Cavalier Mining Corporation Limited	Fission Mines Limited
Central Sudbury Lead-Zinc Mines Ltd.	Fleetwood Yellowknife Mines Ltd.
Chief Mountain Oils Limited	Forbes Lake Mining Corporation Ltd.
Clenor Mining Company Limited	Gay River Lead Mines Limited
Clix Athabasca Uranium Mines Ltd.	Genalta Petroleums Limited
Cobalt Badger Silver Mines Limited	Gold Uranium Exploration Company Ltd.
	Gordona Mining Corporation Limited
	Gothic Mines and Oils Limited

## CANADIAN RESTRICTED LIST—continued

[In effect October 11, 1956]—Continued

Greatlakes Copper Mines Limited	New Telluride Gold Mines of Canada Limited
Great Valley Exploration and Mining Limited	New Vinray Mines Limited
Haitian Copper Corporation Limited	Ni-Ag-Co Mines Limited
Halden Red Lake Mines Limited	Norlarcic Mines Limited
Hamil Silver-Lead Mines Limited	Normingo Mines Limited
Harvard Mines Limited	Nu-Age Uranium Mines Limited
Head of the Lakes Iron Limited	Nu-World Uranium Mines Limited
Hercules Uranium Mines Limited	Oakridge Mining Corporation Limited
Holwood Mines Limited	Obabika Mines Limited
Huddersfield Uranium and Minerals Ltd.	Orbit Uranium Developments Limited
Huhill Yellowknife Mines Limited	Ordala Mines Limited
Judella Uranium Mines Limited	Osage Oil and Exploration Limited
Kabour Mines Limited	Packeno Yukon Mines Limited
Kaiser Development Corporation Ltd.	Paramount Petroleum and Mineral Corporation Limited
Kamis Uranium Mines Limited	Plateau Petroleum Limited
Kersley Oil and Gas Company Limited	Prescott Porcupine Gold Mines Ltd.
Keylode Cobalt Silver Mines Limited	Pyramid Oils Limited
Keymore Gold Mines Limited	Trio Uranium Mines Limited
Key West Exploration Company Ltd.	Quebank Uranium Copper Corporation
Kidihawk Mines Limited	Quebec Developers and Smelters Ltd.
Kirk-Hudson Mines Limited	Rebair Gold Mines Limited
Kirkland Larder Mines Limited	Resolute Oil and Gas Company Limited
Kop Beverages Limited	Ribstone Valley Petroleum Limited
Lake Superior Iron Limited	Richore Gold Mines Limited
Leberta-Redwater Oil Company Ltd.	Ridgefield Uranium Mining Corporation Limited
Lee Gordon Mines Limited	Rigby Kirkland Mines Limited
Lithium Corporation of Canada Ltd.	Roland Gold and Copper Mines Ltd.
Lloydal Petroleum Limited	Rouandah Oils and Mines Limited
Loranda Uranium Mines Limited	St.-Pierre & Miquelon Explorations Inc.
Madison Mining Corporation Limited	Salmita Consolidated Mines Limited
Mag-Iron Mining and Milling Limited	Saratoga Exploration Company Limited
Mallen Red Lake Gold Mines Limited	Sentry Petroleum Limited
Marvel Uranium Mines Limited (formerly Marvel Rotyn Mines Ltd.)	Sioux Petroleum Limited
Marwood Mining Corporation Limited	Skyline Uranium and Minerals Corporation Limited
Masters Oil and Gas Limited	Soo-Tomic Uranium Mines Limited
Mensilva Mines Limited	Spike Redwater Oil Company Limited
Mercedes Exploration Company Ltd.	Strathmore Mines Limited
Mid-West Mining Corporation Limited	Surety Oils and Minerals Limited
Mining Endeavor Company Limited	Trans-Leduc Oils Limited
Min-Ore Mines Limited (formerly Ryan Lake Mines Limited)	United Copper and Mining Limited
Monogram Petroleum Limited	United Uranium Corporation Limited (formerly Indore Gold Mines Ltd.)
Monpre Uranium Exploration Ltd.	Wainwright Producers and Refiners Limited
Monteo Copper Corporation Limited	Wakfield Uranium Mines Limited
Nationwide Minerals Limited	Westberta Oils Limited
New Bailey Mines Limited	West Plains Oil Resources Limited
New Concord Development Corporation Limited (formerly Concord Development Corporation Ltd.)	Westville Mines Limited
New Goldvue Mines Limited	Winston Mining Corporation Limited
New Jack Lake Uranium Mines Ltd.	Whitney Uranium Mines Limited
New Lafayette Asbestos Company Ltd.	Yukeno Mines Limited
New Metalore Mining Company Ltd.	Yukore Mines Limited

To assist in the enforcement work of the Commission, brokers, dealers, and members of the public are requested to report to the Commission evidence of violations of the Securities Acts which may come to their attention.

Mr. ARMSTRONG. This problem continues to be with us despite the excellent cooperation which we are receiving from many Canadian Federal and Provincial officials. We are continuing our active use of

the various enforcement techniques which are described in the portions of the 22d annual report to which I just referred.

The second problem which I mentioned—the difficulty of ascertaining the identity of the beneficial owners of securities purchased or sold in the American capital markets by or on behalf of foreign interests—does not relate exclusively to any particular foreign country. Whenever the registered owner of a security is a person outside the jurisdiction of the United States, we are generally unable to examine the books and records of such person or to question him under oath in order to ascertain the identity of the beneficial owner for whom he is acting and the other relevant details of the transactions. The practical importance of the problem varies from country to country, both because of the varying number of securities transactions emanating from such countries and because of varying degrees of difficulty in obtaining information. In some countries we are able to obtain a certain amount of information through the cooperation of local officials, while, in other countries, local laws or customs interpose particular obstacles to the disclosure of such information. It is by reason of such a combination of circumstances that the problem of transactions from Switzerland has been a source of particular concern. Residents of Switzerland have been relatively large purchasers of American securities. For example, according to data collected by the Treasury Department, net purchases of American corporate stocks by residents of Switzerland in 1955, amounted to \$111 million as compared with \$34 million for the rest of Europe, and in 1956, net purchases by residents of Switzerland were \$118 million, as compared with \$113 million for the rest of Europe. In the second place, the laws of Switzerland prohibit the disclosure of so-called banking secrets which include the identity of individuals for whom a Swiss bank or similar institution is acting and specifically prohibit the disclosure of such information to government agencies outside Switzerland.

These Swiss laws are the outgrowth of a long established custom in that country which, in turn, arose out of the disturbed conditions which have existed in Europe for so long. We understand that the primary purpose of the present Swiss laws was to safeguard assets entrusted to Swiss financial institutions from confiscation by Nazi, Fascist, or Communist authorities which might come to power in the country where the owner of such assets resided. In other words, it is not our belief that these Swiss laws and customs were designed to facilitate securities frauds or the violation of American laws by Americans or foreigners, although unfortunately we have reason to believe that they have, on occasion, been resorted to for that purpose by unscrupulous persons. Such abuses present a difficult problem, not only for us but for the Swiss authorities themselves. We are hopeful that, with patience and understanding, some reasonably acceptable solution may be worked out, or at least the present unsatisfactory condition of affairs may be improved.

There are a number of types of cases in which it is necessary or important for the Commission to ascertain the identity of the owners of securities offered in the United States in order properly to administer and enforce the Federal securities laws. For example, section 16 (a) of the Securities Exchange Act of 1934 requires every person who is directly or indirectly the beneficial owner of more than 10 percent of any class of any equity security which is registered on a



national securities exchange, and every director or officer of the issuer of such a security, to file certain reports of his holdings of any equity security of such issuer and of changes in such holdings. Inability to ascertain the identity of the beneficial owners of securities of American corporations held by various foreign financial institutions makes it difficult, in some cases, to determine whether or not persons in fact subject to the requirements of section 16 (a) are complying with these requirements.

The Commission's proxy rules, issued pursuant to section 14 (a) of the Securities Exchange Act of 1934, require, among other things, a disclosure to stockholders in proxy statements in connection with the election of directors, of securities of the issuer beneficially owned by directors and nominees for that office and, in certain cases, beneficially owned by associates of such persons, together with the interest of such persons and their associates in material transactions with the issuer. In the case of a proxy contest for the election of directors, all participants in the contest are required to furnish rather detailed information about themselves and their interests in securities of the issuer. The term "participant" is broadly defined in the rule to cover persons and groups who solicit proxies, and persons who finance or otherwise enter into arrangements with such groups to induce the purchase or voting of securities in support of, or in opposition to, a participant. In order to obtain for investors the disclosures required by these provisions, it is often necessary to ascertain the amount of securities held beneficially, directly or indirectly, by specified persons, or to ascertain the identity of persons engaged in purchasing or acquiring securities which will be voted for one side or the other in a proxy contest. The holding of voting securities in the names of foreign financial institutions which do not reveal the identity of their clients in some instances complicates the task of obtaining the required disclosure.

Section 5 of the Securities Act of 1933 requires that securities offered in the United States be registered with the Securities and Exchange Commission by the filing of a registration statement and that prospectuses meeting the requirements of the statute be delivered to investors purchasing such security, unless an exemption from registration is available. Frequently the question of whether or not an exemption is available may depend upon the identity of the person for whose account the securities are being offered. Thus, section 4 (1) of the Securities Act of 1933 exempts from the registration requirements, transactions by any person other than an issuer, underwriter, or dealer, and transactions by an issuer not involving any public offering. The term "underwriter," as defined in the statute, includes any person who has purchased securities from an issuer or controlling stockholder with a view to distribution or who sells for such a person in connection with a distribution of any security or who participates in such an undertaking. When securities are distributed in this country on behalf of a Swiss bank or other foreign financial institution, a question immediately arises as to whether or not such institution is an underwriter within the meaning of the statute, or whether it is acting for a person who is such an underwriter, and this in turn may frequently depend upon the identity of the person for whom it is acting. If such person is an issuer, under-



writer, or controlling person of an issuer, registration may be required, while if the person for whom the institution is acting is in none of these categories, the transaction may be exempt from registration. In some instances an exemption has been claimed and the Commission has had great difficulty in determining whether or not such claim was justified and in assembling evidence which would enable it to show in court that the exemption was not available.

The identity of beneficial owners of securities may also become material in connection with the antifraud and antimanipulative provisions of the statutes. For example, under the antifraud provisions of the statutes and the Commission's rules, it may be unlawful for a person to purchase or sell securities without disclosing so-called inside information—that is, material facts of which such person has obtained knowledge because of his relationship to the issuer. In such instances the identity of a purchaser or seller for whom a foreign financial institution is acting may become material in determining whether or not such person is in possession of inside information and is under a duty to disclose it.

Under the antimanipulative provisions of section 9 of the Securities Exchange Act of 1934, it is unlawful for any person, for the purpose of creating a false or misleading appearance with respect to the market for a security, to engage in so-called wash sales or matched orders—that is, transactions which involve no change in the beneficial ownership of the security or substantially simultaneous purchases and sales of such security. It is also unlawful under this provision to effect a series of transactions for the purpose of creating actual or apparent active trading or raising or depressing the price of a security for the purpose of inducing the purchase or sale of such securities by others. Where securities are purchased and sold by or on behalf of foreign financial institutions acting for undisclosed clients, it may be very difficult to determine whether or not the client may have violated the foregoing provisions of law.

During the past year or so we have found increasing evidence of the use of foreign trusts and institutions in transactions which may violate these laws. For example, in three transactions which occurred in the middle of 1956, over \$4 million worth of speculative securities were distributed to the American public on behalf of several Swiss trusts in probable violation of the registration and antifraud provisions of the Federal securities laws. The Commission is now actively investigating a number of such cases, including the ones referred to. In some cases it is possible for the Commission, by lengthy and difficult investigation, and by following all leads available in this country, to obtain direct or circumstantial evidence with respect to transactions involving foreign trusts or other financial institutions where violations of the Federal securities laws may exist. In some of these situations, however, we have been so far unable to ascertain the full facts.

The Commission has also encountered, within the last year or two, instances where Swiss financial institutions appear to have been utilized in major proxy contests for the purpose of accumulating shares which are subsequently acquired by one or more participants in such contests. It has been suggested that the fact that foreign financial institutions are not subject to the margin rules of the Federal Reserve Board may be a principal reason for their use in these situations.

Another reason advanced for such use is that, by employing foreign institutions, a person may avoid disclosure of his activities or his interest. We feel, however, that the problem has been perhaps less serious in the proxy area than in the area of enforcement of the registration and antifraud provisions of the statutes.

Under American corporation law, shares of stock in American corporations are generally required to be registered in the name of an identified individual who appears on the books of the corporation as the owner of such security. Bonds and other debt securities, on the other hand, are frequently made payable to the bearer and the corporation is entitled to treat any person in possession of a security as the owner.

While, as indicated above, equity securities of American corporations are generally registered in the name of an individual, that individual may be, and frequently is, acting as agent or nominee for someone else, and the name of the person for whom such an agent or nominee is acting is not generally available.

Banks, trust companies, and corporations customarily register corporate stock owned by them in the name of a nominee. In addition, a large number of shares, particularly of those issues which are actively traded on securities exchanges, are registered in so-called street names—that is, in the names of securities brokers or dealers who hold the securities for the account of their customers. The usual reasons for holding shares in the name of a nominee or a securities firm is to facilitate the transfer of the security if the owner desires to sell.

According to studies made by the Brookings Institution in 1952 and by the New York Stock Exchange in 1956, approximately 10 percent of the shares of publicly held corporations in the United States were registered in the names of nominees, and about an additional 10 percent were registered in the names of brokers and dealers. About 15 percent more were held in the names of fiduciaries.

It will thus be observed that the identity of the beneficial owner of a substantial amount of American securities is not disclosed by public records and, to that degree, Americans also enjoy a certain amount of privacy with respect to their holdings of corporate securities. It is usually possible, however, for the Commission and other law-enforcement agencies in this country to ascertain the names of beneficial owners in the United States. The names of persons who hold securities as nominees for particular banks and trust companies are generally known and the Commission is advised of them, so that, where necessary, it is possible for us to go to the bank and obtain from it the name of the person for whose account the securities are held. Banks are cooperative with the Commission in this regard, though for their own protection they usually require the service upon them of a subpoena requiring them to furnish the information.

The regulations of the Commission require members of national securities exchanges and brokers and dealers who transact a business in securities through the medium of any such member, and brokers or dealers registered with the Commission pursuant to section 15 of the Securities Exchange Act, to maintain and preserve specified books and records, including a record containing the name and address of the beneficial owner of each account maintained by any such member, broker or dealer, and such records are available for inspection by the Commission at any time.

In order legally to transact a securities business in the United States otherwise than on a stock exchange, but by use of the mails or the facilities of interstate commerce, a foreign broker or dealer is required to be registered with the Commission and a number of such brokers and dealers have been registered. At December 31, 1956, there were 48 foreign dealers registered with us, of whom 41 were Canadians. On July 16, 1956, we amended our regulations with respect to the maintenance of books and records, to require all nonresident broker-dealers registered with us either to maintain at a place within the United States, true, correct, and current copies of the books and records which they are required to maintain or, in the alternative, to enter into a binding undertaking with the Commission to furnish to it upon demand, at a place designated within the United States, true, correct and current copies of any or all, or any part of such books and records. These requirements are contained in rule 204.17a-7. I would like to introduce for the record at this point a copy of that rule.

Senator JENNER (now presiding). It may go into the record.

(The document referred to was marked "Exhibit No. 455" and reads as follows:)

#### EXHIBIT No. 455

#### TEXT OF RULE X-17A-7

##### RULE X-17A-7—RECORDS OF NONRESIDENT BROKERS AND DEALERS

(a) (1) Except as provided in paragraph (b) hereof, each nonresident broker or dealer registered or applying for registration pursuant to section 15 of the Securities Exchange Act of 1934, as amended, shall keep, maintain, and preserve, at a place within the United States designated in a notice from him as provided in subparagraph (2) hereof, true, correct, complete and current copies of the books and records which he is required to make, keep current, maintain or preserve pursuant to any provision of any rule or regulation of the Commission adopted under the act.

(2) Except as provided in paragraph (b) hereof, each nonresident broker or dealer subject to this rule shall furnish to the Commission a written notice specifying the address of the place within the United States where the copies of the books and records required to be kept and preserved by him pursuant to subparagraph (1) are located. Each nonresident broker or dealer registered or applying for registration when this rule becomes effective shall file such notice within 30 days after such rule becomes effective. Each nonresident broker or dealer who files an application for registration after this rule becomes effective shall file such notice with such application for registration.

(b) Notwithstanding the provisions of paragraph (a) hereof, a nonresident broker or dealer subject to this rule need not keep or preserve within the United States copies of the books and records referred to in said paragraph (a), if:

(1) Such broker or dealer files with the Commission, at the time or within the period provided by paragraph (a) (2) hereof, a written undertaking in form acceptable to the Commission and signed by a person thereunto duly authorized, to furnish to the Commission, upon demand, at its principal office in Washington, D. C., or at any regional office of the Commission designated in such demand, true, correct, complete and current copies of any or all of the books and records which he is required to make, keep current, maintain or preserve pursuant to any provision of any rule or regulation of the Commission adopted under the act, or any part of such books and records which may be specified in such demand. Such undertaking shall be in substantially the following form:

"The undersigned hereby undertakes to furnish at his own expense to the Securities and Exchange Commission at its principal office in Washington, D. C., or at any regional office of said Commission specified in a demand for copies of books and records made by or on behalf of said Commission, true, correct, complete, and current copies of any or all, or any part, of the books and records which the undersigned is required to make, keep current or preserve pursuant to any provision of any rule or regulation of the Securities and Exchange



Commission under the Securities Exchange Act of 1934. This undertaking shall be suspended during any period when the undersigned is making, keeping current, and preserving copies of all of said books and records at a place within the United States in compliance with rule X-17A-7 under the Securities Exchange Act of 1934. This undertaking shall be binding upon the undersigned and the heirs, successors, and assigns of the undersigned, and the written irrevocable consents and powers of attorney of the undersigned, its general partners, and managing agents filed with the Securities and Exchange Commission shall extend to and cover any action to enforce same"; and

(2) Such broker or dealer furnishes to the Commission at his own expense within 14 days after written demand therefor forwarded to him by registered mail at his last address of record filed with the Commission and signed by the Secretary of the Commission or such other person as the Commission may authorize to act in its behalf, true, correct, complete, and current copies of any or all books and records which such broker or dealer is required to make, keep current, or preserve pursuant to any provision of any rule or regulation of the Commission adopted under the act, or any part of such books and records which may be specified in said written demand. Such copies shall be furnished to the Commission at its principal office in Washington, D. C., or at any regional office of the Commission which may be specified in said written demand.

(c) For purposes of this rule the following definitions shall apply:

(1) The term "broker" shall have the meaning set out in section 3 (a) (4) of the Securities Exchange Act of 1934;

(2) The term "dealer" shall have the meaning set out in section 3 (a) (5) of the Securities Exchange Act of 1934;

(3) The term "nonresident broker or dealer" shall mean (A) in the case of an individual, one who resides in or has his principal place of business in any place not subject to the jurisdiction of the United States; (B) in the case of a corporation, one incorporated in or having its principal place of business in any place not subject to the jurisdiction of the United States; (C) in the case of a partnership or other unincorporated organization or association, one having its principal place of business in any place not subject to the jurisdiction of the United States.

This action shall be effective August 20, 1956.

By the Commission:

ORVAL L. DUBOIS, *Secretary*.

Mr. ARMSTRONG. Where the registered owner of a security is located in a foreign country, these means for ascertaining the identity of the beneficial owner are not available. Accordingly, we have no information as to the extent to which securities registered in the names of persons abroad are beneficially owned by such persons and the extent to which they are held for the account of others. According to the studies of the New York Stock Exchange referred to a minute ago, about 31½ percent of the shares of publicly owned corporations in the United States were registered in the names of foreigners in 1956. This is an increase from about 1 percent reported in the 1952 study by the Brookings Institution.

The principal sources of overall information concerning the holdings of American securities in foreign countries are the data collected by the Treasury Department with respect to current capital movements and the periodic studies made by the Department of Commerce with respect to the international trade position of the United States, including foreign investments in the United States, as well as American investments in foreign countries.



The Treasury Department figures which are published monthly in the Treasury Bulletin show purchases and sales of American securities in the aggregate and by residents of various individual foreign countries. According to these figures, the total purchases of domestic corporate stock by residents of foreign countries in 1956 are estimated at approximately \$1,619 million, and sales at \$1,363 million, resulting in net purchases of \$255,900,000. This represents a material increase over net purchases in 1955. Of the net purchases by residents of all foreign countries in 1956, residents of Switzerland accounted for approximately \$118 million, or nearly half of the total.

I would like to introduce at this point, Mr. Chairman, a table showing such purchases and sales, derived from the Treasury Department figures. That is table I which appears at the back of the statement.

Senator JENNER. It may go in the record and become a part of the official records of this committee.

(Table I referred to was marked "Exhibit No. 456" and is as follows:)

## EXHIBIT No. 456

*Summary of transactions in domestic corporate stocks by foreigners, 1955 and 1956*

(Millions of dollars)

	1955			1956		
	Pur- chases	Sales	Net pur- chases	Pur- chases	Sales	Net pur- chases
Grand total.....	1,561.2	1,433.7	127.5	<sup>1</sup> 1,618.9	<sup>1</sup> 1,363.0	<sup>1</sup> 255.9
Europe, total.....	1,023.3	877.8	145.5	1,079.0	847.8	231.2
Switzerland.....	571.1	459.5	111.6	590.6	472.6	118.0
Other Europe.....	452.2	418.3	33.9	488.4	375.2	113.2
Canada.....	235.1	286.6	-51.5	234.3	255.5	-21.2
Latin America.....	220.5	202.8	17.7	226.7	197.8	28.9
Other.....	82.3	66.5	15.8	78.9	61.9	17.0

<sup>1</sup> Adjusted preliminary figures include final figures through September.

Source: U. S. Treasury Department.

The Commerce Department studies provide information with respect to the value of foreign investments in domestic corporate stocks. The latest such survey contained in the Survey of Current Business for August 1956, shows the aggregate market value of United States corporate stocks held by residents of foreign countries, excluding estimated holdings of United States citizens resident abroad, at the end of 1955 to be \$6,325 million. Figures for 1956 are not yet available. The largest holding by residents of any particular foreign nation was that of residents of Switzerland which was valued at \$1,796 million at the end of 1955.

I would like, Mr. Chairman, to introduce at this point a table showing the value of such investments by foreign residents for the years 1954 and 1955 in total, and for certain individual areas and nations.

Senator JENNER. It may go into the record.

(Table II, above referred to, was marked "Exhibit No. 457" and is as follows:)

## EXHIBIT No. 457

*Value of foreign investments in domestic corporate stock, excluding holdings of United States citizens resident abroad, year ends 1954 and 1955*

[Millions of dollars]

	Value 1954	Change in 1955		Value 1955
		Net purchases	Price change	
Total .....	5,004	129	1,192	6,325
Western Europe .....	3,485	146	837	4,468
Switzerland .....	1,353	112	331	1,796
United Kingdom .....	1,153	32	276	1,461
Other .....	979	2	230	1,211
Western European dependencies .....	118	6	29	154
Canada .....	910	-51	207	1,066
Latin America .....	377	17	91	484
Other .....	114	11	28	153

In considering these figures, it should be borne in mind that they merely show purchases by individuals and institutions resident in the particular countries and do not necessarily reflect beneficial ownership. Thus, the securities credited to Switzerland may well include substantial amounts held by Swiss financial institutions for the account of persons who in fact reside in other countries.

We hope that the foregoing general statement will be of some assistance to the committee. We have with us certain members of our staff who are prepared to furnish further information with respect to certain specific aspects of our problem.

Senator JENNER. We thank you, Mr. Armstrong. Do you have any questions at this time, Senator?

Senator HRUSKA. No.

Senator JENNER. Proceed Mr. Morris.

Mr. MORRIS. Mr. Armstrong, other witnesses before this committee have testified that, because of the anonymous possibilities that may arise in connection with the purchase of stock in American corporations and the subsequent proxy fights, it is of some concern to the various executive department agencies in that they do not know and cannot know, in some instances, exactly who are taking over some of our vital defense industries.

I think you have testified regarding that somewhere, or made some comments in this regard on some occasion; have you not, Mr. Armstrong, that the Securities and Exchange Commission has likewise been concerned with that possibility?

Mr. ARMSTRONG. I think, Mr. Morris, that our concern has been directed particularly to the possibility of violations of the law which we administer. I do not believe that we have directed or focused our attention particularly on any defense industry aspect of the problem.

I think I might mention, however, to you Senate Resolution 22, in this Congress, which was introduced by Senator Dirksen, referred to the Armed Services Committee, in which reference is made to defense industry problems, and to the securities and exchange problem

in this area, so that the two are not unrelated. We have not really been focusing on anything other than our particular problem, as I stated in our opening statement.

Mr. MORRIS. On that you say:

We feel, however, that the problem has been, perhaps, less serious in the proxy area than in the area of enforcement of the registration and antifraud provisions of the statutes.

Mr. ARMSTRONG. Yes, sir, that is true. But I think my answer has to go further than that.

Even in the proxy area we have not been directing attention to whether or not the company which was the subject of the proxy fight was a defense industry company. What we have been concerned with is getting the facts brought forward by the participants in the proxy contests, assuming the company is subject to our jurisdiction under the Securities Exchange Act, so that the disclosure requirements of the act will be fulfilled.

Now I suppose that some of those companies may have defense contracts and others don't. I don't know that we have studied that phase of it.

I would like to ask Mr. Loomis, in whose Division of Trading and Exchanges the economic research goes on, and Mr. Heller, of the Division of Corporation Finance, whether either of them have been directing attention to the defense phase of the problem.

Mr. LOOMIS. I think Mr. Heller is more familiar with the facts about the particular companies that have been involved in proxy fights as to their defense contracts. I think some of them do have some such business.

Mr. HELLER. I think Fairbanks-Morse has some important defense contracts, and I think that about 10 percent of its sales last year were defense-connected sales. On the other hand, however, the company seeking control of Fairbanks-Morse is an American company controlling the block of stock in Fairbanks-Morse, and is also engaged in defense production to some extent.

Mr. MORRIS. In that connection, Mr. Chairman, the concern of the subcommittee, I think I speak for the subcommittee, and the interests of the subcommittee, is such that it might be helpful to the gentlemen here testifying to know that we have taken up with the Department of Defense witnesses, as well as the other witnesses before the committee today, and have pointed out that it is now possible for anonymous sources to purchase stock in a defense corporation, a corporation engaged in defense work and as the result of the subsequent proxy fight wherein anonymous sources can well, under existing regulations, take control of a company, which could again conceivably then be run by stockholders who would elect directors, which directors would be running the particular defense industry.

Now, I think we have had 5 or 6 witnesses testifying that that had led to an impasse, that further legislation was necessary in order to really plug up this possible loophole in the laws.

We wondered, Mr. Armstrong, if you could tell us what practical legislation could be recommended by Congress in order to plug up this particular loophole, namely, the possibility of a foreign source buying into American industry and then, after a subsequent proxy fight, wherein the foreign sources would prevail, you have a foreign anonymous source acting in one of our vital defense companies.

Mr. ARMSTRONG. Well, I don't think that our Commission, Judge Morris, is prepared at the present time to recommend additional legislation to the Congress, although we may desire, on the basis of studies that this committee is making, and our Commission is making, and a subcommittee, the Subcommittee on Security of the Committee on Banking and Currency of the Senate, is making, to come forward with some legislative proposal later on this year.

It is a very complex problem which we have been studying. We have in mind, in addition to the possibility of legislation by act, the possibility of legislation by treaty. It very well may be that the information that our Commission desires to obtain, as the Commission authorized by the United States Government to administer, or directed by the United States Government to administer our Federal securities laws, could be obtained through the direct cooperation of the foreign governments under the treaty with a particular foreign country.

I might elaborate a little bit on the Canadian phase of the problem, which I mentioned in my statement.

On a voluntary basis, we have been obtaining excellent cooperation in our investigations from the officials of Canada, both at the Federal and provincial level. I am just afraid that anything I might say specifically on legislation at this point would be premature.

Mr. MORRIS. Well, Commissioner Armstrong, the subcommittee is interested in some kind of legislation that would require additional identification, and yet, before proceeding with such legislation, would like to be sure that whatever the legislation is which is introduced, it would not be imposing difficulties on such administration by the Securities and Exchange Commission that it might be impossible of maintaining.

For instance, would it be feasible to pass a law, or at least to introduce a law, that would require the beneficial holders of all stock in American defense industry, or American industry generally, to identify themselves before they could vote in a proxy fight?

Mr. ARMSTRONG. From the practical standpoint, I am not sure that it would.

Mr. MORRIS. In other words, certainly you would not want a holder of a hundred shares possibly, or 50 shares, or 10 shares, or some small amount, to identify himself.

Mr. ARMSTRONG. It is not that I would not want it.

Mr. MORRIS. As far as the SEC is concerned.

Mr. ARMSTRONG. That is right. But it is the practical standpoint that I am concerned about, and it is a jurisdictional question. It is the question of the extent of the jurisdiction of the United States, how far can the United States go.

Let us suppose, in a hypothetical case, that the Swiss bank in a particular situation identified its customer, and its customer was also a foreign institution or a foreign individual, but had not disclosed that fact to the Swiss bank. Could the Swiss bank's customer vote under legislation such as you are suggesting?

It is conceivable that the Swiss bank's customer could vote on disclosure by the Swiss bank that such customer were a beneficial owner, and such statement by the customer might be completely false and there would be no way in the world that we would know about that fact.



I would like to ask Mr. Heller if he would care to elaborate on that.

Mr. HELLER. Mr. Morris, our Securities and Exchange Act of 1934 now requires the beneficial owner of 10 percent or more of the stock of any listed company—

Mr. MORRIS. That is 10 percent or more?

Mr. HELLER (continuing). Wherever he is, to disclose it. Now, if he does not disclose it, it is a violation of law.

Mr. MORRIS. It is easy to see where you would have 3 or 4 holders of 9 percent or less of the stock who, together, would represent such a formidable combination that they could effectively control the corporation.

Now, the thing that the subcommittee is considering—should legislation proceed from the subcommittee which would require further identification of the beneficial holders and if so, to what extent? You certainly would not want to go down to the identification of the owners of 2 or 3 shares of stock, for instance, but should there not be some point—

Mr. HELLER. It is a question of degree, I think. Senator Capehart introduced a bill which would require the disclosure of ownership of 5 percent or more of the stock of the company, and I think the Commission has generally—

Mr. ARMSTRONG. We supported that legislation.

Senator Capehart, if I may interrupt for a moment, has also introduced another bill which would require the beneficial ownership of any shares voted in a proxy contest to be disclosed. That bill has been referred to the Commission for our views, which we have not yet given because we received it only recently.

Mr. MORRIS. In other words, you feel that it would be conceivable, at least as far as proxy fights are concerned, or at least to gain some vote in a proxy fight in any struggle to take over the corporation, that it would be possible for legislation to exist that would require the identity of all persons.

Mr. HELLER. All?

Mr. MORRIS. That would be the second legislative proposal referred to, that would be necessary. Would that be unnecessarily restrictive?

Mr. HELLER. The problem, Mr. Morris, is this: You do not necessarily restrict it. How do you know you get the beneficial owner, if there are Swiss owners, for example? As Mr. Armstrong says, the Swiss bank may even tell you that the man they regard as the owner is so-and-so. He may not be, in fact, the real beneficial owner. It is a real problem of enforcement. The fundamental thing is: You have to deal with the foreign countries. You may have a law calling for that and may or may not get it, depending on whether the foreign country wants to compel their nationals to do that, that is, to disclose those facts.

Mr. ARMSTRONG. If I may supplement that, Mr. Morris, we have visualized this problem up to now from our standpoint under the Federal securities laws as being the problem of the enforcibility of existing laws. We have run into difficulties of enforcement because our jurisdiction runs out where the territorial limits of the United States run out, and where, by voluntary means, we are not able to obtain the information from the people abroad, we don't visualize at the moment a problem which could necessarily be helped, except perhaps in degree, by legislation.

Senator Capelhart's proposal, in his legislation affecting section 16 (a), to reduce that to 5 percent, would be a good idea, but you could still get a combination of 10 groups holding 4.9 percent and that would not help.

The problem is: If the holders are abroad and refuse to give out the information, or there were hidden successive beneficial owners, we would not be any further along than we are now.

Mr. LOOMIS. You see, our rules now require every person who is participating in a proxy fight, and who has much, if any, part in an effort to take over control of the corporation, whatever he may own, to identify himself; and the problem, as the chairman has pointed out, is to enforce that. I think, if we get in each case all the information that is called for by those rules about everybody who is participating in a proxy contest, if we got it all it would identify anybody who has any significant part in any proxy contest or in any effort to take over control by proxy contest.

Mr. MORRIS. Well, it is true generally that a law, any law, may be obviated by people not complying with it, and concealing the facts.

Mr. LOOMIS. Yes.

Mr. MORRIS. You have an enforcement problem, and that is true even in connection with the existence of the law now which requires us to hold it at 10 percent—

Mr. LOOMIS. Yes.

Mr. MORRIS (continuing). Who must declare their identity before they can participate in a proxy fight. But granted that you have a problem of enforcing which is a very severe one, as far as you people are concerned, would it add additional difficulties to your work in the SEC if a law should pass which would require further identification before people can participate in a proxy fight?

Mr. ARMSTRONG. I think we would have to see the language of the act before we could give an opinion on that.

Mr. MORRIS. In connection with that, Mr. Armstrong, would it be unnecessary to require additional identification for the mere holding of the foreign stock, on the part of foreign owners of American stock?

Mr. ARMSTRONG. Would it be necessary?

Mr. MORRIS. In other words, if we have a law which requires the foreign owners of American stock to identify themselves simply to own the stock, there would not be much advantage gained by that; would there?

Mr. ARMSTRONG. Well, I don't know whether the advantage would outweigh the disadvantage because it would, I think, impose a rather drastic change on the customs in the securities market now. There might be an advantage, too, and there might be advantages in other areas of Federal jurisdiction such as the Internal Revenue Code and matters pertaining to the flow of funds.

There would be many things that would have to be taken into consideration to determine whether, on balance, it would be desirable legislation or not.

Mr. MORRIS. But the real problem comes in with the possibility of somebody owning stock to the extent that they are trying to take control over. That is where the problem lies.

Mr. ARMSTRONG. The problem is certainly one which can be involved—the control problem.

Mr. MORRIS. Senator, anything more on that particular point?

Senator JENNER. No.

Senator HRUSKA. Mr. Chairman, I have a question or two right in here.

On page 13 of your statement you say :

According to the studies of the New York Stock Exchange referred to above, about 3½ percent of the shares of publicly owned corporations in the United States were registered in the names of foreigners in 1956.

In that report or study of the New York Stock Exchange resulting in that conclusion, is there any breakdown as to the type of stock that is involved in that foreign ownership?

Mr. LOOMIS. Not that I recall. They just took off the publicly traded stock in the United States as a group; they didn't break it down either by countries or by stocks. They didn't break them down specifically by, say, defense industries or nondefense or in any way.

Senator HRUSKA. Or banks or insurance companies?

Mr. LOOMIS. No; it's just an overall figure.

Mr. ARMSTRONG. May I interpose a question: Did they just cover the listed stocks?

Mr. LOOMIS. No; they covered all publicly traded stocks in the United States, both listed and unlisted.

Mr. ARMSTRONG. So, to a considerable extent that must be based on a sampling study.

Mr. LOOMIS. It was based on a sampling study made by various groups in the securities industry.

Senator HRUSKA. One of the concerns of this committee, in its effort to study this situation, is the possible control by foreign sources, as you can understand. Would it be practical to have a limitation as to the voting powers of stocks which are owned by foreign sources, if there were sufficient satisfactory disclosure of the beneficial owners thereof that would satisfy the standards which are imposed upon domestic owners of such stock? Is that practical as a working, administrative thing, if such a law or such legislation were considered?

Mr. ARMSTRONG. My own view of that, Senator Hruska, is that the problem is—it would involve, of course, some imposition of the Federal jurisdiction on the States because, of course, the voting of stocks is a matter of State law. But, after all, the Federal Government has assumed such jurisdiction under section 14 of the Exchange Act, and what you are suggesting would be merely an extension, in a limited area, of that assumption of jurisdiction by the Federal Government.

Senator HRUSKA. At some degree that bridge was crossed back in 1933; was it not?

Mr. ARMSTRONG. Yes, sir. The basic intergovernment relationship between the Government and the States was crossed in 1933 and 1934 when the——

Senator HRUSKA. When the considerations of national policy overrode the State jurisdictions which have theretofore been held quite inviolate.

Mr. ARMSTRONG. That's right; and, of course, back in those days the draftsmen were always concerned as to just how far the constitutional power ran under the commerce clause, but——

Senator HRUSKA. Except here.

Mr. ARMSTRONG. I personally would entertain no doubt of that subject today.



Senator HRUSKA. Here you get into international considerations, as opposed to interstate considerations.

Mr. LOOMIS. Yes.

Senator HRUSKA. And presumably into a much more legitimate field for an overriding national policy.

Mr. ARMSTRONG. Yes. I can't see any constitutional problem involved in that at the present time.

Senator HRUSKA. Would there be any bad effect as to the market itself if there were that limitation? Can you foresee anything that would be worthy of observation at this point in that regard?

Mr. ARMSTRONG. Well, speaking for myself, and this is not a question which has been discussed by the Commissioners, so I can't speak for them, but I can see no bad effect from such legislation.

In other words, my own thinking has been along these lines, that where the Securities and Exchange Commission is not satisfied with the information that we have been able to develop through our own investigative processes there ought to be some right on the part of the Commission which, after all, is the representative of the United States Government, to interpose in a situation of that kind.

Now, we do not have that right, as I understand the law today, the only basis upon which we can go into a Federal court today to restrain the voting of proxies, or restrain the holding of the meeting, is that we are able to demonstrate by evidence, admissible and material in a Federal court, that there has been a violation of our disclosure requirements. Up to now, we have not gone into any Federal court in any such situation.

We, from time to time, would feel more comfortable if we had been able to obtain information which we haven't been able to obtain, but nevertheless we don't have any factual data that could be used in a court because all the data we do have is in the other direction.

Senator HRUSKA. And, not available to you.

Mr. ARMSTRONG. No. The data we do have on the basis of our investigations made here, and we have a very vigorous investigation that goes on in all of these cases in which we get all the participants down and put them on the record, subpoena them under oath, the data that they give us is that there is no violation and when that is the evidence we do have, and we have no other evidence, then we have to live by that.

Senator HRUSKA. Your principal concern, and the principal concern of the statute as now written with reference to the disclosure of stock that has to do with safeguards against abuse of management principles, doesn't it? For example, in proxy fights and in other instances where you require disclosure, your objectives there are directed primarily to management, manipulation and abuse thereof.

Mr. ARMSTRONG. I don't believe, Senator Hruska, that it is right to characterize it as abuse of management. The abuse can be perpetrated by management, by an opposition group or in the field of market manipulation by any person, whether management or opposition or rank outsider to the situation. The purpose of the act, sir, is to furnish certain basic protections to the investors, protections against abuses by any person who may be engaged in such abuses.

Senator HRUSKA. Management or any other.

Mr. ARMSTRONG. Absolutely, and, in our administration of the proxy rules, we are strictly and absolutely impartial. We get both groups



down, the management group and the opposition group, and interrogate them under oath to give us the facts as to their interest in the contest, their stock holdings and contractual relations they may have or propose to have with the company, and so on.

A great mass of detailed information we require to be given to us under oath by both sides, and it is on the basis of the taking of that testimony by us under our subpoena powers that we are able to require the participants in that proxy contest to include in their proxy statement which is distributed to security holders, the facts that they do include, and if any of the things they have stated to us under oath, or included in that proxy statement lead later, or turn out to be false or misleading in any material respect, they will be subject to the penal provisions of the Exchange Act.

Senator HRUSKA. Just so that you would have a background for the purpose of my question, as against any further expression of opinion which might be requested of you, it would be in my mind that it would not be objectionable for these foreign sources to be investing in these securities here except insofar as it might bear upon a control of the management, which would be harmful to this country and in its defense efforts, or any other, and if a deprivation of the voting power would clear up that situation and be a safeguard, unless standards which are set up for proper disclosure were abided by, then perhaps the problem would no longer exist.

Mr. ARMSTRONG. Well, I firmly feel, Senator Hruska, from the standpoint of your committee, that that is undoubtedly the sound position, although I am not really qualified to speak from that full standpoint, but speaking from the standpoint of the Securities and Exchange Commission, as a Commissioner thereof, I don't have any difficulty with the proposal along those lines.

Senator HRUSKA. It is only on that concept that I asked for your suggestions. Any statement that would be made to implement that concept would have to be examined carefully, but the concept itself is what I am interested in.

Mr. ARMSTRONG. Speaking for myself, as an SEC member not able to speak for others generally, I am favorable to the approach.

Senator HRUSKA. And that is all you have at the present time?

Mr. ARMSTRONG. It may be that one of the other Commissioners might want to contradict what I have said.

Senator HRUSKA. Would there be any others here who would have any observation along that line?

Mr. HELLER. In my judgment, most foreign investments are made for investment, not control. They have an interest in the profits. If you restrict foreign investors from voting unless they disclose their beneficial ownership, it may result in all corporations, American corporations, not being able to obtain a sufficient vote to take many important corporate actions. In other words, under State laws the election of a board of directors requires a specified number of votes, a merger or consolidation requires a certain specified number of votes, and if the proposed law would result in a refusal by a large number of foreign investors to vote, because of a desire to avoid full disclosure, you may well impede ordinary important corporate procedures.

Senator HRUSKA. And to that extent give them a negative control.

Mr. HELLER. That could be.

Mr. MORRIS. That would seem to be a very important point from our point of view, Senator. A restriction, even against forcing the disclosure of the beneficial owners for voting purposes, might have the effect that you just described.

Mr. HELLER. It might have some effect. There is a large quantity of stock in American companies held abroad primarily for investment purposes.

Mr. MORRIS. What other nations, other than Switzerland, have laws which insure the anonymity of the owners of stocks?

Mr. HELLER. I will have to ask our General Counsel.

Mr. MEEKER. I am not prepared to answer that question today, Mr. Chairman. I haven't studied all of them, by any means.

Mr. MORRIS. Are there other countries other than Switzerland where that is now the custom?

Mr. MEEKER. Yes, sir.

Senator JENNER. Would you provide that information for our records, please?

Mr. MEEKER. Yes, sir.

Mr. ARMSTRONG. I might say, Senator Jenner, and Senator Hruska, that we are preparing, in our New York regional office, and under the supervision of our General Counsel the staff is working here on a memorandum for the committee on that subject. We have been working on it for quite a while, but we did not feel we wanted to give it today because there is some more work that ought to be done on it. We will submit it to you for the record, and come up and testify about it if necessary.

Senator JENNER. Thank you very much and we can make it a part of this record.

Mr. ARMSTRONG. I think we might mention the Ontario Records Act.

Mr. MORRIS. What was that?

Mr. POLLACK. Ontario has a Business Records Act, covering financial records, which cannot be removed from Ontario, or even résumés or digests of such records, subject to certain exceptions. For example, if the company is licensed to sell securities in the United States, they can make such records or résumés of such data available but, if they are not, then they cannot, under that provision. Thus it can be used as a purported shield for somebody who is engaging in fraudulent activities in the United States. And when you inquire as to this information the answer is, "Well, under the Ontario provision, we are not permitted to disclose these things."

There may be similar statutes in some other countries, but we have not done sufficient research to give you any authoritative statement on it.

Mr. LOOMIS. In connection with that, in addition to the laws that restrict the disclosure of information, some countries' corporation laws appear to just provide a very minimum of information which you can go to. Their procedures are different from ours and all that you find available in public sources there is the name of a local lawyer who is acting for the company, and so on—some very minimal information. Even if there is no law in that country prohibiting disclosure of information, there isn't any information available to disclose unless you find people who may be in that country or in some other, so it is more than just a question of whether a country has a law prohibiting the disclosure of information.

It is also a question of whether that country requires any information to be collected in the first place.

Mr. WINDELS. I think even more basic, our subpoenas do not reach into any foreign country. Therefore, even though we know what the facts are, if the witnesses who alone can testify as to the facts are in a foreign country and are unwilling voluntarily to come to our jurisdiction, there is no way in which we can use those facts in a proceeding, and if we can't develop the facts in a proceeding, then our hands are tied.

Mr. MORRIS. That would indicate that the source of the problem is not only the countries that have these laws that prohibit disclosure, but almost every country because of the inaccessibility of the evidence.

Senator JENNER. There was some reference early in your statement to a possible treaty or treaties.

Mr. ARMSTRONG. Yes.

Mr. MORRIS. Senator, in that connection I might ask Mr. Armstrong—do you know that a rather thorough inquiry was undertaken by the Treasury Department during the war to determine how foreign money could be used to aid the enemy during the course of the war? Did you know there was such a report?

Mr. ARMSTRONG. I can't say that I knew of it specifically, no; but I knew there were general studies along that line.

Mr. MORRIS. Senator, Chairman Eastland has written a letter to Hon. George M. Humphrey on March 27, 1957, which reads:

It has come to the attention of the United States Senate and the Internal Security Subcommittee, which is currently investigating the origin of foreign moneys coming into the United States, that an investigation of and hearings on the practices of the Swiss banks and particularly their branches and agencies in the United States were conducted in 1942 and 1943 by the Treasury Department.

I further understand that a report was written after these hearings and submitted to Secretary Morgenthau by the Office of General Counsel.

It is requested that the aforesaid hearings and the resulting reports, together with the recommendations, be made available to the Internal Security Subcommittee.

We have not had a reply yet.

Mr. ARMSTRONG. If I might add to my answer to Judge Morris, I specifically did not know about a study in 1942. What I was referring to was the general notion that I had that the whole subject of the transmission of funds among the Allied countries was the subject of very close, careful control during the wartime period. But I didn't know about the study that you are referring to.

Mr. MORRIS. I wonder, Mr. Armstrong, if you could tell us how you check on the movement of securities which are sold within the United States generally; and by that we mean, perhaps a stock might be privately listed, or sold with an investment company, and possibly an exemption would be claimed under section 14 of the Securities Act.

Mr. ARMSTRONG. I would like, in answer to that question, to give Mr. Loomis and Mr. Heller and Mr. Windels a free rein to give you some detailed information about that.

Mr. MORRIS. Senator, I might point out in connection with this question that the problem the subcommittee has encountered in this study relates not only to the flow of foreign money into the United States, but now that we have gotten into many specific cases, we find that these foreign trusts and, as I say, notably the trusts in Switzer-



land, do take out quite a bit of money from the United States, and we have not been able to identify the nature of persons, the identity of the persons, taking the money out of the United States, so that is an added factor to the ones we have been discussing so far, Senator.

Mr. LOOMIS. Judge Morris, may I ask if your inquiry relates generally to the foreign transactions or general approach we have?

Mr. MORRIS. I think if you tell generally and very briefly and then concentrate on the foreign aspects of it, it would be most helpful.

Mr. LOOMIS. Generally we do not get reports of the issuance of securities and transactions except from registrations, so that we don't know all that specifically. However, there are various means by which we may find that certain securities have been distributed. A listed company may report that fact, or investors may advise us or it may appear in some financial source. In any number of ways we find out that securities have been issued, and our regional office then customarily makes some check to endeavor to see if that transaction is lawful.

Also, we inspect brokers and dealers, and in that way we can find securities passing through their accounts and determine again whether those securities transactions appear to be proper.

It is done primarily by the inspection of broker-dealers' records and by investigations. Once we find the transaction, we examine the books and records of the transfer agent, the issuer, the officers and directors of the issuer, the person who poses as a stockholder of record, as well as the books and records of broker-dealers in this country, and we endeavor to trace these transactions.

Where a foreign trust or bank is involved, we endeavor to find out who in this country is acting for it, and we question him; though very frequently we find he knows very little about the transaction.

Now, for a more specific discussion of the matter, I might refer you to Mr. Windels who has actually done that in a number of cases.

Mr. MORRIS. Mr. Windels is the regional administrator for the New York area.

Mr. ARMSTRONG. Covering the States of New York and New Jersey.

Mr. WINDELS. The great States of New York and New Jersey.

Ordinarily, Judge Morris, we enter into an investigation upon complaint by the purchaser or because of information which has come to our attention that certain broker-dealers are peddling certain securities. We then go to the purchasers of the securities or the broker-dealer and identify the certificate number and, of course, the issuer, and we ascertain how it happens that the registration of these securities is maintained. Virtually all American equity securities are registered with the issuing corporation, usually through an agency; it might be a trust company or an organization set up just to register securities. A difficulty to which I may allude is the fact that certain countries, particularly Liberia, favor corporations with bearer securities, and you can see how that would make it difficult to trace a distribution of securities.

We then try to follow the securities, tracing them back to their source to see just how it happened that they came on the market—through whose hands these securities passed—and in that way we can determine whether or not there has been a violation of our registration requirements, and whether or not there has been fraud, and if so, who has been responsible for the fraud.



Of course we face a number of difficulties in ordinary domestic transactions because, if the security is actively traded, if it has passed through a brokerage office, no control is maintained by exact certificate number. In short, if you should sell a hundred shares of X corporation on the New York Stock Exchange today, and I should buy them, it may be that the price would be the same and the time identical, but I would not necessarily be the assignee of your particular documents.

This is a knotty problem, but the techniques employed by us to overcome it have been fairly effective, particularly when there is a pattern of distribution. If we can show that there has been a major flow of securities, we don't have too much trouble checking the domestic transactions back to the source. But I think you can see now the part which foreign trusts might play. They act as circuit breakers in our line of proof. When securities come to a foreign trust, they may be distributed to other foreign trusts, they may be thereafter distributed to a number of nominees in Canada and then filter back into this country. We know that there is a scheme about the whole thing but we can't produce the evidence.

We have recently gone into court on such an occasion. We were successful simply because we showed a particularly convincing pattern. This happened to be a civil case, and we have yet to try this technique in a criminal case, but I am relatively confident about our ability in this instance.

Now, it may be that if we are successful, then their tactics will just become that much more deceptive, instead of coming through Canada they might come through Mexico or other countries, and Venezuela seems to be gaining in popularity.

Mr. ARMSTRONG. Tell us about a hypothetical case.

Mr. MORRIS. I was just going to suggest that in the interests of the subcommittee, on that last point you spoke of, I know you don't want to disclose the identity of the civil cases you have prosecuted, but it would be most helpful if you could give us some more details and more specifications of these things, because that is exactly what the subcommittee is looking for.

Mr. ARMSTRONG. Excuse me, I don't mean to be hypersensitive, but anything that we have prosecuted is in the public record, and we would be delighted to give you the information on it. However, the ones that are now pending, under investigation—

Mr. MORRIS. I am not asking you to identify a case.

Mr. ARMSTRONG. We appreciate that.

Senator HRUSKA. Mr. Armstrong, in order that I can get that narration which is about to come forth into my thinking, is that the type of case to which you refer on page 9 of your statement, the three instances there which probably are violations?

Mr. ARMSTRONG. Yes.

Mr. LOOMIS. Yes; that type of case, it may not be that exact case, but some of them are.

Mr. ARMSTRONG. I don't like to be hypersensitive, but he used the word "know," and that should be "suspecting." We get an aggregate of that which causes us to know.

Senator JENNER. All right, proceed.

Mr. MORRIS. Mr. Windels.

Mr. WINDELS. The first example I would like to give you involves an American corporation which is engaged in looking for and drilling

for oil. This corporation had need for additional financing. It wanted approximately a million dollars and had outstanding 250,000 shares of stock held by various existing stockholders. It went to a Swiss trust and the Swiss trust, for \$1,300,000, purchased 750,000 shares of the stock. The Swiss trust, of course, then became a control person and if it sold these shares it should have registered them. In addition, having taken them without registration, they must have, under the law, taken them with an investment intent, otherwise public distribution without registration would be easy—a private taker could immediately turn around and sell the share publicly. The statute calls such a private buyer an underwriter. In this particular case, the shares were sold almost immediately, commencing within a matter of 2 or 3 days and having been purchased for \$1 to \$3 a share, they were sold to the American public at between \$10 and \$12 a share. The value of the stock has since fallen to below the price paid by the Swiss trust, so you can appreciate the extent of the loss, and also the extent of the profit to the insiders on that transaction.

Mr. MORRIS. In this case there is no way to ascertain at that point, by either your agency or the United States Government, as to precisely who it was that made the money?

Mr. WINDELS. That's right. And of course we particularly are not able to connect by evidence the management of the corporation with the public distribution.

Mr. MORRIS. Now, what can you now do in order to enforce the provisions of law that now exist with respect to the situation you have just described?

Mr. WINDELS. Well, our present techniques are generally these: In order to market a block of stocks, the principals must employ broker dealers, and in order to market securities under the circumstances that I described, the broker dealers would have to be of a certain type, we call them boiler rooms. By "boiler room" I mean a security retailing organization employing high pressure telephone salesmen. We have gone into a number of such boiler room organizations in New York and have found up to 40 men in a room. Last summer I happened to visit one. The salesmen were stripped to the waist, many of them tattooed, and I would say two-thirds of them had criminal records. They were former circus pitch men, confidence men of all sorts, usually the type of men who would be one hop ahead of the sheriff, and these men were on the telephones and selling securities.

So, we start with our unraveling of this problem with the boiler room. Our attitude has been that they violate certain criminal statutes, and we prosecute them. Then we try to use what leverage we might gain in such a prosecution to move into the next echelon. This problem is not unlike other problems in criminal enforcement, similar to narcotics retailing for example. The principals are never people who handle the narcotics personally, it is only by prosecuting the people who do that you can move into the higher echelons.

It is extremely difficult and frustrating. We always want to bring in the principals, the architects; and we hope in this particular case that we can. Most cases of this type must be developed, in the final analysis, before the grand juries. That seems to be the atmosphere most conducive to cooperation by operators of boiler rooms with the Government.

That, such as it is, is our present approach.

Mr. MORRIS. You say, by holding to the pattern of these operations, you are able to make some headway.

Mr. WINDELS. We have been able to make some, Judge Morris. We have obtained a number of injunctions. In a criminal case, a fraud case such as this, we regard an injunction as only a stopgap. If there has been a criminal violation there should be criminal prosecution, and we are of a mind to see that there will be, if possible.

Mr. ARMSTRONG. It is a little bit more than that because these places we ran into last year were closed down.

Mr. WINDELS. For the most part they have been closed down.

Mr. ARMSTRONG. How many injunctions did we get?

Mr. WINDELS. We have obtained about 25 injunctions since last October, which is 6 times the amount the New York regional office had obtained in the prior fiscal year.

Mr. ARMSTRONG. And certain of those had not been going as long as a year.

Mr. WINDELS. We have had quite an enforcement drive under the direction of the chairman, but I think that the difficulty with stamping out a boiler room is that the people just scatter and they open up little boiler rooms of their own, and we must constantly be on the alert to stamp them out. We go into them after they have just opened up and we ask to look at their books, and frequently we take them to court on a violation of bookkeeping rules and nondisclosure of principals, and things like that.

Very often they are income-tax evaders and we don't have to ask them any more than where they file their income-tax return, and then we find we have one less broker dealer.

Our problem is that they crop up, and the way to handle them is criminal prosecution. The thing that this type of individual understands is not any sort of administrative or civil proceeding, but criminal prosecution resulting in jail sentences and substantial jail sentences.

Mr. ARMSTRONG. I would like to supplement that if I may for a minute, on this question of our inspection of broker dealers—it seems to me that the whole broker-dealer inspection goes a good deal further. The fact that we do make regular inspections of broker dealers, particularly in recent years of all new broker dealers coming into the business, as a matter of routine, has a very good deterrent effect on broker dealers going into this type of high-pressure selling that has been described.

Now, we also have a nationwide jurisdiction. We have nine regional offices of which the New York office is one. We have run into similar problems beginning in other regional offices, but because we would get into those shops as fast as we have been able to, we have been able to either (a) dissuade them from going any further; (b) enjoin them or (c) institute revocation proceedings, all of which I think, with considerable success in the past several years.

For instance, we had a situation out in Colorado, on the Colorado Plateau—

Mr. MORRIS. Speak up a bit, Mr. Armstrong.

Mr. ARMSTRONG. We had a similar situation out in the Colorado Plateau during the period of the boom for uranium securities in 1954



and 1955. As an administrative matter, we shifted personnel from our eastern offices out to the Denver office, established an office in Salt Lake City and went to the houses, that had grown up and come in business just for the purpose of peddling these uranium securities, to make sure that they were going to abide by the standards of the Securities and Exchange Act and the rules of the Commission thereunder.

As a result of that, a considerable number of brokers and dealers who went into business out there have either been enjoined or their authority revoked, or have voluntarily withdrawn and right today, 2 or 2½ years after that effort on our part commenced, there is exactly the same number of broker-dealers in Salt Lake City as before, and these other fellows are gone.

It is a broad problem. For example, in our Chicago office—Mr. Windels mentioned the scattering after our New York people had been into some of these houses in August of 1956. We had gotten information in Chicago that they were going to open up a shop out there. We indicated to them that if they did that, we were planning on coming down on them with the Chicago Regional Administrator, and they never opened up.

Mr. WINDELS. A trainload of them arrived and the Chicago Regional Administrator was at the airport to meet them.

Mr. MORRIS. I wonder if Mr. Windels could tell us how an anonymous Swiss trust and these boilerroom operators get together, if there is a connection.

Mr. WINDELS. Yes, sir. In the first place we can't trace the source of the beneficial ownership of the securities. We can't put our fingers on the individual who makes the money; and, in a criminal case, the most compelling element of evidence of fraudulent schemes is always: Who makes how much money.

The broker dealers, by and large, sell for a certain commission over the table, but most of the money is coming to them under the table. If the profit is made by a Swiss trust, we can't examine the books, we don't know how much profit was made, and how that was allocated to the various parties; and, of course, we can't link the Swiss trust in with the issues of the securities. All that we know is there must be something—some sort of link if the Swiss trust buys the shares at between 1 and 3 and sells them a few days later at 10 and 12. It seems to us that the issuer, or the principals behind the issuer, might well be the beneficial participants in the Swiss trust.

Mr. MORRIS. Must the Commission wait until the stock has gone to market, or is the Commission's mechanism such that it can prevent distribution in violation of section 5, even before it is open?

Mr. LOOMIS. Well, it depends on how fast we can learn of it, of the situation. As I mentioned a moment ago, people sell stock under a claim of exemption and they do not have to notify the Commission in advance. Therefore, we can stop the distribution while it is in progress only if we are able to find out about it and to assemble evidence about it quickly enough.

Our regional offices are quite alert to what broker dealers are doing, as Mr. Windels mentioned, and when they find a broker dealer distributing large blocks of stock, either from an inspection or investigation of an investor's complain, they immediately ask where the



stock comes from, where did they get it, and we can stop it by injunction in the Federal court, before it goes very far.

Where a Swiss trust is interposed, that at least causes a delay because of the problem of short-circuiting the investigation process which Mr. Windels described, and the distribution can go on considerably further before we are able to assemble sufficient information to stop it in the Federal court.

Mr. WINDELS. The hit-and-run technique is used and we are not told beforehand that a block of these securities is coming on the market, so frequently it does happen, unfortunately, that we don't hear about them until members of the public lose money.

Mr. MORRIS. Mr. Windels, do you find this in the administration of the New York office—do you find that this is now an expensive condition, and do you find that it takes up a large portion of your time, this particular problem we have been discussing just now?

Mr. WINDELS. As far as I am concerned, it is expensive as long as it exists at all, and I can't say now that we have completely—I might say pasteurized, or we have completely eliminated this element. As far as taking up enforcement strength, I think that virtually all of our criminal cases—they are the ones with which I am most concerned right now—involve some sort of a foreign transaction; perhaps half of them are Swiss and half of them purely Canadian. But then there has been, I would say, a great overlapping, probably two-thirds involve Swiss and two-thirds Canadian, and one-third would involve a combination of both. I'm speaking of criminal cases now.

We have a number of other problems which man-hourwise represent a great deal of work, just ministerial problems, checking on one thing or another, inspecting broker dealers—and not all broker dealers we inspect are suspected of boilerroom activity. It's a regular program carried on by the Commission to see that the broker dealer maintains a certain required capital and certain books and records to reflect that he meets those capital requirements.

We have market surveillance units, small issue units; but in criminal work, this element of foreign participation is almost invariably there in our current cases.

Mr. ARMSTRONG. I would like to say one thing in regard to the criminal work. It should be very clearly indicated to the committee that under the statutes, of course, we are not responsible for the presentation of cases to the grand jury or for their prosecution. The statutes which we have to administer give us investigative power and then directs that, where we believe there has been a wilful violation of the statute, the Commission shall refer the case to the Attorney General for such action as he shall deem necessary.

Of course the Attorney General is free to take whatever action he wants to, so that mechanically what happens here is that our investigative offices, our nine regional offices, such as the one Mr. Windels heads up in New York, will develop what is in effect an investigative file and that includes his recommendations to the Commission as to whether or not the case should be referred to the Attorney General. It is then sent down to our headquarters office in Washington. It is then reviewed by our General Counsel, who has a small criminal section under Mr. Pollack's supervision, and the General Counsel then advises the Commission as to whether, in his opinion, the case is an appropriate one for reference to the Attorney General.

At that point, the case is presented to the Commission. The Commissioners read the reports and the opinions. We discuss with the staff members if necessary, in many cases very closely question the staff members as to the facts of the case and as to the probability of successful prosecution, and so on. Then the Commission takes a vote as a regular Commission action as to whether the case should be referred to the Attorney General.

At this point the case is, in the ordinary course, transmitted over by the General Counsel to the Criminal Division of the Department of Justice, and it is carefully examined by the staff there—or by the United States Attorney's office where there has been a direct reference—and under the supervision of one of the Assistant Attorneys General of the United States; from there it is referred—assuming that the Attorney General at the Department of Justice approves the recommendation of the Commission—to the United States attorney in the district where the presentation to the grand jury is to be made. So it is a procedure in which our Commission, in effect, is the investigative agency and the Department of Justice, through the United States attorney, is the prosecutory agency.

Now, in fact, our staff maintains the very closest and warmest working relationship that you can imagine with the United States attorney throughout the country, and Mr. Windels has been working with the Eastern District of New York and so on all over the country.

Also it may be necessary, when the case is brought to the grand jury, that Mr. Windels appear before the grand jury. There may be additional data that can be brought forward in an investigation by the grand jury, but at that point the Department is in charge of it and we are assisting to the extent that they ask us to.

Senator JENNER. Anything further?

Mr. MORRIS. I have one further question.

Senator JENNER. All right.

Mr. MORRIS. We have, with our limited resources in this particular field—I have just got Mr. Garcia working on it—we have encountered scores of such cases as Mr. Windels describes. It would be very helpful, Mr. Armstrong, or Mr. Windels, if you could estimate for us the scope of this thing.

To us, as I say, with the limited force that we are able to put into it, it seems quite extensive because we have turned up literally scores of cases without great difficulty. We know each one seems to involve a million dollars or more, and I wonder if you could tell us generally how extensive is this operation.

Mr. ARMSTRONG. We know it is extensive. We are in accord with your opinion; but I don't believe there is any way we can put a dollar figure on it, because when people are violating the law, they don't furnish statistics to the law enforcement agency as to how much money they have taken in by the fraudulent means.

Senator JENNER. Could you give us an estimate?

Mr. ARMSTRONG. I don't believe we could estimate it except to say that it involves many millions of dollars, or did last year. Any estimate, Senator Jenner, would be a guess, and I don't think we ought to make a guess.

But to indicate the seriousness with which we view this problem, I think the committee should be aware of what Mr. Windels has referred to and what the Commission refers to as our enforcement program.

It is a subject which we discussed recently in our own recent annual report, particularly the one submitted January 3. It is a subject which we presented to the Appropriations Committee on both sides, for example, and in fiscal 1957, we were granted appropriations by the Congress for the first time in the Commission's history in the exact amount that we requested of the Bureau of the Budget and the exact amount recommended in the President's budget, and it was designed to make it possible for us to make 1,300 broker-dealer inspections.

The previous year we had budgeted for 900 and again Congress went along almost with our request.

In 1956 our staff did 952 broker-dealer inspections. Now, for 1958, in the budget which we have recently presented, we have requested a sufficient amount of funds to enable us to mount 2,075 broker-dealer inspections, and that phase of our program was approved by the House Appropriations Committee in their report in connection with the Independent Offices Appropriation bill. Unfortunately, they didn't approve certain other phases of our program, but that phase was approved and they directed that our staff and regional offices should be maintained at the full strength we had recommended, having in mind that inspection program.

This whole problem is one in which we have been putting very great emphasis from the enforcement standpoint in the past several years.

Senator JENNER. Chairman Armstrong, on behalf of the committee, I want to thank you.

Mr. MORRIS. Senator, as we are not through with all the questions yet, the Commission will hold over until tomorrow, if we desire.

Senator JENNER. We will have to recess at this time. We are now in session.

We want to thank you, and if you can come back, we will carry this over until tomorrow.

Mr. ARMSTRONG. We will be glad to be here.

Mr. MORRIS. I take it that the Commissioners and everybody else will be here.

Mr. ARMSTRONG. We will be here, yes.

Senator JENNER. The committee stands recessed until tomorrow at 10:30.

(Thereupon, at 12:10 p. m., the committee recessed until the following day, Wednesday, April 10, 1957, at 10:30 a. m.)





# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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WEDNESDAY, APRIL 10, 1957

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY ACT  
AND OTHER INTERNAL SECURITY LAWS  
OF THE COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to recess, at 10:40 a. m., in room 457, Senate Office Building, Senator Roman Hruska presiding.

Also present: William Rusher, associate counsel, Benjamin Mandel, research director, and Roy C. Garcia, investigator.

Senator HRUSKA. The committee will come to order, and we will resume hearings which were commenced yesterday. It is my understanding that Mr. Armstrong has a further statement supplementing some of the remarks and comments he made yesterday.

Mr. RUSHER. Senator, we will hear Mr. Armstrong's statement first.

## STATEMENT OF J. SINCLAIR ARMSTRONG, CHAIRMAN, SECURITIES AND EXCHANGE COMMISSION

Mr. ARMSTRONG. Thank you very much, Senator Hruska.

Before I begin, let me say that all the commissioners and staff members who were present yesterday are here today, plus an additional member of our staff, Mr. Byron D. Woodside, who is sitting behind me here, and who is the Director of our Division of Corporation Finance. We had a good many pieces of business of great importance in the division yesterday, and we left him over there while we brought Mr. Heller over here. But they are both here today from that division.

Mr. Chairman and members of the committee, the subcommittee apparently is primarily concerned with the possibility that foreign interests may obtain control of American companies without disclosure of their actual beneficial interest in such companies. In this context, we believe it will be helpful if the present legislative structure of disclosure is brought clearly to the subcommittee's attention. Under the provisions of the Securities Exchange Act of 1934, all companies listed on national securities exchanges and all companies which have registered for public offering, under the Securities Act of 1933, securities aggregating \$2 million or more must comply with the interim and annual reporting requirements set forth in sections 13 and 15 (d) of the Exchange Act and the forms, rules and regulations thereunder. We believe that most of the significant defense-connected

companies are in these categories—that is they are either listed on national securities exchanges or have filed registration statements under the Securities Act of 1933 offering securities in amounts such as to bring the reporting requirements of the Securities Exchange Act of 1934 into play.

By virtue of the provisions of the Securities Exchange Act of 1934, the Commission has promulgated form 8-K, a copy of which I would suggest be placed in the record of the hearing at this point, sir.

Senator HRUSKA. It will be received for the record.

(The document referred to was marked "Exhibit No. 458" and reads as follows:)

Revised 1-28-54

# SECURITIES AND EXCHANGE COMMISSION

Washington 25, D. C.

## Form 8-K

### CURRENT REPORT

Pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934

For the month of \_\_\_\_\_, 19\_\_\_\_\_

-----  
(Exact name of registrant as specified in charter)

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(Address of principal executive offices)

### GENERAL INSTRUCTIONS

#### A. Rule as to use of Form 8-K

Form 8-K shall be used for current reports under Section 13 or 15 (d) of the Securities Exchange Act of 1934, filed pursuant to Rule X-13A-11 or Rule X-15D-11.

#### B. Events to be reported

A report on this form is required to be filed upon the occurrence of any one or more of the events specified in the items of this form. Reports are to be filed within 10 days after the close of each month during which any of the specified events occurs. However, if substantially the same information as that required by this form has been previously reported by the registrant, an additional report of the information on this form need not be made. The term "previously reported" is defined in Rule X-12B-2.

#### C. Application of general rules and regulations

(a) The General Rules and Regulations under the Act contain certain general requirements which are applicable to reports on any form. These general requirements should be carefully read and observed in the preparation and filing of reports on this form.

(b) Particular attention is directed to Regulation X-12B which contains general requirements regarding matters such as the kind and size of paper to be used, the legibility of the report, the information to be given whenever the title of securities is required to be stated, and the filing of the report. The definitions contained in Rule X-12B-2 should be especially noted. See also Regulations X-13A and X-15D.

(c) Three complete copies of each report on this form, including exhibits and all papers and documents filed as a part thereof, shall be filed with the Commission. At least one such complete copy shall be filed with each exchange on which any security of the registrant is listed and registered. At least one of the copies filed with the Commission and one filed with each such exchange shall be manually signed. Unsigned copies shall be conformed.

#### D. Preparation of report

This form is not to be used as a blank form to be filled in, but only as a guide in the preparation of the report on paper meeting the requirements of Rule

X-12B-12. The report shall contain the numbers and captions of all applicable items, but the text of such items may be omitted, provided the answers thereto are prepared in the manner specified in Rule X-12B-13. All items which are not required to be answered in the particular report may be omitted and no reference thereto need be made in the report. All instructions should also be omitted.

*E. Incorporation by reference to proxy statement or annual report to stockholders*

Information contained in a proxy statement filed with the Commission pursuant to Regulation X-14 or in an annual report submitted to stockholders pursuant to Rule X-14A-3 of that Regulation may be incorporated by reference in answer or partial answer to any item or items of this form. In addition, any financial statements contained in any such proxy statement or annual report may be incorporated by reference provided such financial statements substantially meet the requirements of this form.

INFORMATION TO BE INCLUDED IN REPORT

*Item 1. Changes in control of registrant*

(a) If any person has become a parent of the registrant, give the name of such person, the date, and a brief description of the transaction or transactions by which the person became such a parent and the percentage of voting securities of the registrant owned by the parent or other basis of control by the parent over the registrant.

(b) If any person has ceased to be a parent of the registrant, give the name of such person and the date and a brief description of the transaction or transactions by which the person ceased to be such a parent.

*Item 2. Acquisition or disposition of assets*

If the registrant or any of its majority-owned subsidiaries has acquired or disposed of a significant amount of assets, otherwise than in the ordinary course of business, furnish the following information:

(a) The date and manner of acquisition or disposition and a brief description of the assets involved, the nature and amount of consideration given or received therefor, the principle followed in determining the amount of such consideration, the identity of the persons from whom the assets were acquired or to whom they were sold and the nature of any material relationship between such persons and the registrant or any of its affiliates, any director or officer of the registrant, or any associate of any such director or officer.

(b) If any assets so acquired by the registrant or its subsidiaries constituted plant, equipment or other physical property, state the nature of the business in which the assets were used by the persons from whom acquired and whether the registrant intends to continue such use or intends to devote the assets to other purposes, indicating such other purposes.

*Instructions.*—1. No information need be given as to (i) any transaction between any person and any wholly owned subsidiary of such person: i. e., a subsidiary substantially all of whose outstanding voting securities are owned by such person and/or its other wholly owned subsidiary; (ii) any transaction between two or more wholly owned subsidiaries of any person; or (iii) the redemption or other acquisition of securities from the public, or the sale or other disposition of securities to the public, by the issuer of such securities.

2. The term "acquisition" includes every purchase, acquisition by lease, exchange, merger, consolidation, succession, or other acquisition; provided that such term does not include the construction or development of property by or for the registrant or its subsidiaries or the acquisition of materials for such purpose. The term "disposition" includes every sale, disposition by lease, exchange, merger, consolidation, mortgage, or hypothecation of assets, assignment, whether for the benefit of creditors or otherwise, abandonment, destruction, or other disposition.

3. The information called for by this item is to be given as to each transaction or series of related transactions of the size indicated. The acquisition or disposition of securities shall be deemed the indirect acquisition or disposition of the assets represented by such securities if it results in the acquisition or disposition of control of such assets.

4. An acquisition or disposition shall be deemed to involve a significant amount of assets (i) if the net book value of such assets or the amount paid or received therefor upon such acquisition or disposition exceeded 15 percent of the total



assets of the registrant and its consolidated subsidiaries, or (ii) if it involved the acquisition or disposition of a business whose gross revenues for its last fiscal year exceeded 15 percent of the aggregate gross revenues of the registrant and its consolidated subsidiaries for the registrant's last fiscal year.

5. Where assets are acquired or disposed of through the acquisition or disposition of control of a person, the person from whom such control was acquired or to whom it was disposed of shall be deemed the person from whom the assets were acquired or to whom they were disposed of, for the purposes of this item. Where such control was acquired from or disposed of to not more than five persons, their names shall be given, otherwise it will suffice to identify in an appropriate manner the class of such persons.

6. Attention is directed to the requirements at the end of the form with respect to the filing of financial statements for businesses acquired.

### *Item 3. Legal proceedings*

(a) Briefly describe any material legal proceedings, other than ordinary routine litigation incidental to the business, to which the registrant or any of its subsidiaries has become a party or of which any of their property has become the subject. Include the name of the court in which the proceedings were instituted, the date instituted, and the principal parties thereto.

(b) If any such proceeding previously reported has been terminated, identify the proceeding, give the date of termination and state the disposition thereof with respect to the registrant and its subsidiaries.

*Instructions.*—1. If the business ordinarily results in actions for negligence or other claims, no such action or claim need be described unless it departs from the normal kind of such actions.

2. No information need be given with respect to any proceeding which involves primarily a claim for damages if the amount involved, exclusive of interest and costs, does not exceed 15 percent of the current assets of the registrant and its subsidiaries on a consolidated basis. However, if any proceeding presents in large degree the same issues as other proceedings pending or known to be contemplated, the amount involved in such other proceedings shall be included in computing such percentage.

3. Notwithstanding the foregoing instructions, any bankruptcy, receivership, or similar proceeding with respect to the registrant or any of its significant subsidiaries shall be described. Any proceeding to which any director, officer, or affiliate of the registrant, any principal holder of equity securities of the registrant or any associate of any such director, officer, or security holder, is a party adverse to the registrant or any of its subsidiaries shall also be described.

### *Item 4. Changes in securities*

(a) If the constituent instruments defining the rights of the holders of any class of registered securities have been materially modified, give the title of the class of securities involved and state briefly the general effect of such modification upon the rights of holders of such securities.

(b) If the rights evidenced by any class of registered securities have been materially limited or qualified by the issuance or modification of any other class of securities, state briefly the general effect of the issuance or modification of such other class of securities upon the rights of the holders of the registered securities.

*Instruction.*—Working capital restrictions and other limitations upon the payment of dividends are to be reported hereunder.

### *Item 5. Changes in security for registered securities*

If there has been a material withdrawal or substitution of assets securing any class of registered securities of the registrant, furnish the following information:

(a) Give the title of the securities.

(b) Identify and describe briefly the assets involved in the withdrawal or substitutions.

(c) Indicate the provision in the underlying indenture, if any, authorizing the withdrawal or substitution.

*Instruction.*—This item need not be answered where the withdrawal or substitution is made pursuant to the terms of an indenture which has been qualified under the Trust Indenture Act of 1939.

### *Item 6. Defaults upon senior securities*

(a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund installment, or any other material default not cured within 30 days, with respect to any indebtedness of the registrant or any of its



significant subsidiaries exceeding 5 percent of the total assets of the registrant and its consolidated subsidiaries, identify the indebtedness and state the nature of the default. In the case of such a default in the payment of principal, interest, or a sinking or purchase fund installment, state the amount of the default and the total arrearage on the date of filing this report.

*Instruction.*—This paragraph refers only to events which have become defaults under the governing instrument, i. e., after the expiration of any period of grace and compliance with any notice requirements.

(b) If any material arrearage in the payment of dividends has occurred or if there has been any other material delinquency not cured within 30 days, with respect to any class of preferred stock of the registrant which is registered or which ranks prior to any class of registered securities, or with respect to any class of preferred stock of any significant subsidiary of the registrant, give the title of the class and state the nature of the arrearage or delinquency. In the case of an arrearage in the payment of dividends, state the amount and the total arrearage on the date of filing this report.

*Instruction.*—Item 6 need not be answered as to any default or arrearage with respect to any class of securities all of which is held by, or for the account of, the registrant or its totally held subsidiaries.

#### *Item 7. Increase in amount of securities outstanding*

If the amount of securities of the registrant outstanding has been increased through the issuance of any new class of securities or through the issuance or reissuance of any additional securities of a class outstanding and the aggregate amount of all such increases not previously reported exceeds 5 percent of the outstanding securities of the class, furnish the following information:

(a) Title of class, the amount outstanding as last previously reported, and the amount presently outstanding (as of a specified date).

(b) A brief description of the transaction or transactions resulting in the increase and a statement of the aggregate net cash proceeds or the nature and aggregate amount of any other consideration received or to be received by the registrant.

(c) The names of the principal underwriters, if any, indicating any such underwriters which are affiliates of the registrant.

(d) A reasonably itemized statement of the purposes, so far as determinable for which the net proceeds have been or are to be used and the approximate amount used or to be used for each such purpose.

(e) A statement as to whether or not such securities were registered under the Securities Act of 1933; if not, an indication of the exemption claimed and the facts relied upon to make the exemption available.

(f) If the securities were capital shares, a statement of the amount of the proceeds credited or to be credited to any account other than the appropriate capital share account.

*Instructions.*—1. This item does not apply to notes, drafts, bills of exchange or bankers' acceptances which mature not later than 1 year from the date of issuance. No report need be made where the amount not previously reported, although in excess of 5 percent of the amount outstanding, does not exceed \$50,000 face amount of indebtedness or 1,000 shares or other units.

2. This item includes the reissuance of treasury securities and securities held for the account of the issuer thereof. The extension of the maturity date of indebtedness shall be deemed to be the issuance of new indebtedness for the purpose of this item. In the case of such an extension, the percentage shall be computed upon the basis of the principal amount of the indebtedness extended.

3. If an exemption from registration under the Securities Act of 1933 is claimed under the second clause of section 4 (1) of that act, state whether or not the securities were taken for investment by the purchasers.

#### *Item 8. Decrease in amount of securities outstanding*

If the amount of any class of securities of the registrant outstanding has been decreased through one or more transactions and the aggregate amount of all such decreases not previously reported exceeds 5 percent of the amount of securities of the class previously outstanding, furnish the following information:

(a) Title of the class, the amount outstanding as last previously reported, and the amount presently outstanding (as of a specified date).

(b) A brief description of the transaction or transactions involving the decrease and a statement of the aggregate amount of cash or the nature and aggregate amount of any other consideration paid or to be paid by the registrant in connection with such transaction or transactions.

*Instruction.*—Instruction 1 to item 7 shall also apply to this item. This item need not be answered as to decreases resulting from ordinary sinking fund operations, similar periodic decreases made pursuant to the terms of the constituent instruments, decreases resulting from the conversion of securities or decreases resulting from the payment of indebtedness at maturity.

*Item 9. Options to purchase securities*

If any options to purchase securities of the registrant or any of its subsidiaries from the registrant or any of its subsidiaries have been granted or extended and the amount of securities called for by all such options the granting or extension of which has not been previously reported, exceeds 5 percent of the outstanding securities of the class, furnish the following information:

- (a) The dates on which the options were granted or extended;
  - (b) The total amount of securities called for by such options;
  - (c) The consideration for the granting or extension of the options;
  - (d) The exercise prices;
  - (e) The market value of the securities on the granting or extension dates;
  - (f) The expiration dates of the options; and
  - (g) Any other material conditions to which the options were subject.
- (h) A statement as to whether or not the securities called for by the options have been or are to be registered under the Securities Act of 1933; if not, an indication of the exemption claimed and the facts relied upon to make the exemption available.

*Instructions.*—1. The term "option" as used herein means any option, warrant or right to purchase securities. This item does not, however, refer to an issue of securities such as an issue of warrants or rights or an issue of convertible securities.

2. This item need not be answered where the amount not previously reported, although in excess of 5 percent of the amount outstanding, does not exceed \$50,000 face amount of indebtedness or 1,000 shares or other units of other securities.

3. If an exemption from registration under the Securities Act of 1933 is claimed under the second clause of Section 4 (1) of that Act, state whether or not the securities were or are to be taken for investment by the purchasers.

*Item 10. Revaluation of assets or restatement of capital share account*

(a) If there has been a material revaluation of the assets of the registrant or any of its significant subsidiaries involving a writeup, writedown, writeoff or abandonment, state the date of the revaluation, the amount involved and the accounts affected, including all related entries. If any adjustment was made in any related reserve account in connection with the revaluation, state the account and amounts involved and explain the adjustment.

(b) If there has been a material restatement of the capital share account of the registrant resulting in a transfer from capital share liability to surplus or reserves, or vice versa, state the date, purpose, and amount of the restatement and give a brief explanation of all related entries in connection with the restatement.

*Item 11. Submission of matters to a vote of security holders*

If any matter has been submitted to a vote of security holders, furnish the following information:

- (a) The date of the meeting and whether it was an annual or special meeting.
- (b) If the meeting involved the election of directors, state the name of each director elected at the meeting and of each other director new in office.
- (c) Briefly describe each other matter voted upon at the meeting and state the number of affirmative votes and the number of negative votes cast with respect to each such matter.

*Instructions.*—1. If any matter has been submitted to a vote of security holders otherwise than at a meeting of such security holders, corresponding information with respect to such submission shall be furnished. The solicitation of any authorization or consent (other than a proxy to vote at a stockholders' meeting) with respect to any matter shall be deemed a submission of such matter to a vote of security holders within the meaning of this item.

2. This item need not be answered as to (i) procedural matters, (ii) the selection or approval of auditors, or (iii) the election of directors or officers in cases where there was no solicitation in opposition to the management's nominees, as listed in a proxy statement pursuant to regulation X-14 and all of such nominees were elected. This item may be omitted if action at the meeting was limited to

the foregoing. In cases where the registrant does not solicit proxies and the board of directors as previously reported to the Commission was reelected in its entirety, a statement to that effect will suffice.

3. If the issuer has published a report containing all of the information called for by this item, the item may be answered by a reference to the information contained in such report, provided copies of such report are filed as an exhibit to the report on this form.

*Item 12. Other materially important events*

The registrant may, at its option, report under this item any events, with respect to which information is not otherwise called for by this form, which the registrant deems of material importance to security holders.

*Item 13. Financial statements and exhibits*

List below the financial statements and exhibits, if any, filed as a part of this report:

- (a) Financial statements.
- (b) Exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

By \_\_\_\_\_ (Registrant)  
 \_\_\_\_\_ (Signature)\*

Date \_\_\_\_\_

\*Print name and title of the signing officer under his signature.

FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED

*1. Businesses for which statements are required*

The financial statements specified below shall be filed for any business the acquisition of which by the registrant or any of its majority-owned subsidiaries is required to be described in answer to Item 2 above.

*2. Statements required*

(a) There shall be filed a balance sheet of the business as of a date reasonably close to the date of acquisition. This balance sheet need not be certified, but if it is not certified, there shall also be filed a certified balance sheet as of the close of the preceding fiscal year.

(b) Profit and loss statements of the business shall be filed for each of the last three full fiscal years and for the period, if any, between the close of the latest of such fiscal years and the date of the latest balance sheet filed. These profit and loss statements shall be certified up to the date of the certified balance sheet.

(c) If the business was in insolvency proceedings immediately prior to its acquisition, the balance sheets required above need not be certified. In such case, the profit and loss statements required shall be certified to the close of the latest full fiscal year.

(d) Except as otherwise provided in this instruction, the principles applicable to a registrant and its subsidiaries with respect to the filing of individual, consolidated, and group statements in an original application or annual report shall be applicable to the statements required by this instruction.

*3. Application of regulation S-X*

Regulation S-X governs the certification, form, and content of the balance sheets and profit and loss statements required by the preceding instruction, specifies the basis of consolidation thereof, and prescribes the statements of surplus to be filed in support thereof. No supporting schedules need be filed.

*4. Filing of other statements in certain cases*

The Commission may, upon the informal written request of the registrant, and where consistent with the protection of investors, permit the omission of one or more of the statements herein required or the filing in substitution therefor of appropriate statements of comparable character. The Commission may also by informal written notice require the filing of other statements in



addition to, or in substitution for, the statements herein required in any case where such statements are necessary or appropriate for an adequate presentation of the financial condition of any person for which financial statements are required, or whose statements are otherwise necessary for the protection of investors.

#### EXHIBITS

Subject to the rules as to incorporation by reference, the following documents shall be filed as exhibits to this report:

1. Copies of any plan of acquisition or disposition described in answer to item 2, including any plan of reorganization, readjustment, exchange, merger, consolidation or succession in connection therewith.

2. Copies of the amendments to all constituent instruments and other documents described in answer to item 4.

3. Copies of all constituent instruments defining the rights of the holders of any new class of securities referred to in answer to item 7.

4. Copies of the plan pursuant to which the options referred to in answer to item 9 were granted, or if there is no such plan, specimen copies of the options.

5. Copies of the text of any proposal described in answer to item 11.

6. Copies of any material amendments to the registrant's charter or bylaws, not otherwise required to be filed.

MR. ARMSTRONG. This form requires a report by all companies subject to its requirements in respect of the occurrence of certain important events within 10 days after the close of the month in which such events occur. You will notice that item 1 of the form requires a report within 10 days after the close of the month in which it occurs of any change in control of the company. This is accomplished by requiring a disclosure of the names of persons who become "parents" of the company, together with the date and a brief description of the transaction or transactions by which the person became such a parent and the percentage of voting securities owned by the parent or other basis of control by the parent of the company. "Parent" is defined as "a person or company controlling another person directly or indirectly through one or more intermediaries" and "controlling" is defined as "the power to direct or cause the direction of the management and policies of a company, whether through the ownership of voting securities, by contract, or otherwise." In other words, there is no stock percentage control necessary before the requirement for disclosure comes into play. Irrespective of the amount of shares owned, if any individual or group or company, whether domestic or foreign, actually acquires the ability to manage the affairs of the company in question a report must be made by the company.

Item 7 of the form requires a report, within 10 days after the close of the month in which it occurs, of the issuance of securities by the company exceeding 5 percent of the amount of the outstanding class of such securities. Detailed information is required as to the name of the securities, description of the transaction in which the securities were issued, the nature of the consideration received for the securities, the names of the underwriters of the securities, if any, the purposes for which the proceeds of the sale of the securities are to be used and the reasons why the securities were not registered under the Securities Act of 1933, if they were not so registered.

As I have stated, these provisions, assuming no deliberate violation of our law, result in obtaining prompt information in respect to transfers of control of established American companies to foreign elements and of issuances of securities without registration.



Our proxy rules also require disclosure of the identities and activities of all persons participating in a proxy contest for the acquisition of control of listed companies. With respect to such contests, we do not believe that the history of the Commission's experience with such contests reveals any instance in which the actual prime movers seeking control of the company were foreign individuals or companies. In every such case of which the Commission has a record, the persons seeking control were Americans or American companies operated by American citizens and information concerning the stock ownership of such individuals was readily available by the Commission's usual investigatory processes. It is true, however, that in certain proxy contests, Americans seeking control of American companies have purchased stock from foreign banks and institutions or have been otherwise financed by such institutions and that the Commission has not always been able to obtain information as to the names of the sellers of such stock to American citizens.

In the course of administering the disclosure provisions of the Federal securities laws, we can recall no case in which the possible infiltration of American industries by foreign interests adverse to the interests of the United States has raised a problem. Obviously, such a case would be reported by the Commission to the appropriate Government agency having an interest in such a problem. Moreover, as I pointed out, it is the Commission's belief that the requirements of the Securities Exchange Act are adequate at present to obtain disclosure of the fact of a change in control of American companies and the acquisition of control of such companies by foreign interests if it occurs, assuming no deliberate violation of our reporting requirements. In view of the fact that existing managerial groups would doubtlessly be sensitive to changes in control which affected their interests, particularly if such changes resulted in control by foreign elements, it is probable that they would bring to the attention of the Commission and other proper governmental authorities any changes which might affect our national security.

Finally, enactment of the Fulbright bill (S. 1168) in the present Congress would extend the application of the reporting and proxy requirements of the Exchange Act to an additional 1,374 of the most important publicly owned unlisted companies.

I might say at this point, Senator Hruska, that, subject to two technical changes which we have recommended, the Commission has endorsed the Fulbright bill in reports filed with the Senate Banking and Currency Committee, of which Senator Fulbright is chairman.

Yesterday Senator Hruska inquired as to the amount of securities which may be the subject of investigation by the Securities and Exchange Commission in enforcement of the various provisions of the Federal securities laws which involve transactions by foreign persons, particularly purchases or sales by Canadian or Swiss persons or institutions. An analysis of 40 cases presently under investigation for possible violation of such laws in the Commission's New York regional office discloses that the aggregate dollar amount of issues in which transactions by Swiss or Canadian persons or institutions appear somewhere in connection with the issue is \$72 million, of which \$43 million involves the appearance of a Swiss institution. These 40 cases represent approximately 20 percent of all of the cases presently under active investigation in our New York regional office.

The Commission and staff, of course, would be delighted, sir, to answer questions, and we have some additional material which we would submit for the record if it were deemed appropriate by the subcommittee.

Mr. RUSHER. Chairman Armstrong, I notice in your statement at one point you mention that the history of the Commission's experience, as far as you know, does not reveal any instance in which the actual prime movers seeking control of the company were foreign individuals or companies.

I take it there you are talking about so-called proxy contests for which there was a knock-down, drag-out battle for control?

Mr. ARMSTRONG. The answer to that is "Yes."

I would like to have Mr. Woodside, who has been a member of the staff since 1934, supplement the answer that I gave to Mr. Rusher.

Mr. WOODSIDE. Mr. Chairman, that statement was not intended to be limited to proxy contests, although perhaps the text might indicate that. I think I can safely say that, in our experience, the same observation or conclusion could be made with respect not only to contests for control waged under the Commission's proxy rules, but also to reported transactions of all types involving major acquisitions by reporting companies as well as financing by companies which involved registration under the Securities Act; in other words, financing which involved the public disclosure required by our securities statute.

Mr. RUSHER. You are not contending, are you, sir, that there are not many American corporations in which the prime movers in control are foreign?

Mr. WOODSIDE. I cannot give you statistics, but if you want my impression from having worked with the cases, the answer is "yes."

Mr. RUSHER. Well, let me call your attention to an article I just happened to come across this morning in the New York Times. I know nothing about the particular situation here, nor have I any reason to suppose that is a proper subject for investigation by our committee. I merely use it illustratively. Just reading you the first paragraph or so:

A foreign syndicate headed by a Dutch investment bank may shortly acquire control of an American utility company which sells ice, fuel oil, and bus service in the South, gas in Puerto Rico, the Canary Islands, and the Philippines, and electricity in Haiti.

A spokesman for Burnham & Co., a New York brokerage house, yesterday confirmed it holds some 27 percent, or 270,000 shares, of the Central Public Utility Corp. of St. Louis on behalf of N. V. Bankierskantoor van Mendes Gans & Co., of Amsterdam.

Mr. ARMSTRONG. That, Mr. Rusher, is a case which was mentioned by our Division of Corporate Regulation, which assists the Commission in administering the Public Utility Holding Company Act of 1935, at the Commission meeting yesterday afternoon. That is the first case that we have ever had of that kind under the Holding Company Act, and it is presently under investigation. We would be glad to have Mr. Garrett, the Director of that Division, here to advise the committee about it should it become necessary. However, I do not believe that our present information on that subject is such that we could give a complete answer to it.

MR. RUSHER. I was not pressing for information, Mr. Armstrong, I was merely using that as an illustration, I think it is very—a typical——

MR. ARMSTRONG. Yes, sir; a very unusual case. It is an unusual company, as a matter of fact. A very substantial proportion of the operating properties of that company are not in the United States. That is, offshore properties so far as the continental United States is concerned.

And I think, so far as the advice to the public is concerned, Mr. Rusher, the facts are, in part, being furnished to us as well as in part being investigated by us. So that to a considerable extent the information is in the public domain.

MR. RUSHER. Yes. Let me make it clear that I did not mean to raise this particular purchase as being potentially dangerous or in any way insidious.

I was attracted by the statement that you read: that you did not know of any instance in which the actual prime movers seeking control of the company were foreign individuals or companies. It looked to me, superficially, as though this is precisely such a case when I happened to note it in the paper this morning.

MR. ARMSTRONG. I think it is a very unusual and special type of case. The Central Public Utility Co. is a company with respect to which the Commission has been attempting to solve the section 11 problems for a good many years. And there is a long history to it, in part brought about by the fact that a considerable portion of its operating properties are not within the United States. We have been struggling with it as long as I have been a member of the Commission, and so far as I can tell we are still struggling with it.

MR. RUSHER. May I ask, sir, is my impression wrong that, particularly in the field of the liquor industry, there is a large amount of foreign control of American corporations?

MR. WOODSIDE. I cannot answer that, sir.

MR. LOOMIS. I do not have any complete answer to that offhand. It is true that there are a substantial number of big foreign companies that are generally known to be headquartered in Canada, which do have important interests in the liquor industry in the United States.

MR. ARMSTRONG. Through subsidiaries.

MR. LOOMIS. Through subsidiaries or affiliates.

MR. RUSHER. Amounts that go to control, would you say?

MR. LOOMIS. I would say in some of those cases the Canadian, or foreign company, has simply set up a subsidiary in this country.

MR. RUSHER. They have, in some cases, actually bought American companies; have they not?

MR. LOOMIS. That may be as well.

MR. ARMSTRONG. And I suppose the same is true in reverse: That a very considerable portion of the investment of American capital in other countries, including Canada, is by direct investments by American corporations in their Canadian and other foreign subsidiaries.

MR. RUSHER. With regard to your initial statement, again, sir, I notice two points on page 3 and in the middle again at the bottom of page 4, you make the statement: "Assuming no deliberate violation of our law," in the first instance, and "assuming no deliberate violation of our reporting requirements" in the second.

MR. ARMSTRONG. Yes, that is right.



Mr. RUSHER. Isn't it really the problem, though, that we face with regard to foreign companies that they do not, in some cases, report, and it is difficult to get, with regard to them, the same degree of visibility, owing to the Swiss numbered accounts and other techniques, that is possible when a person violates the law in this country? In other words, isn't this, to a certain extent, precisely the problem that you gentlemen face in attempting to keep an eye on the—

Mr. ARMSTRONG. It is the problem that we face and that any law enforcement agency faces. If the law is evaded or avoided, obviously the law is not being carried out.

But the line of questions yesterday indicated a desire on the part of the subcommittee, I take it, for some legislative proposals. And what I was trying to emphasize by these two clauses was that it is not so much a matter of legislation, it is a question of ability to enforce existing legislation. And these disclosure provisions that exist in the Securities Act, in the Securities Exchange Act and in our rules and forms thereunder, are very comprehensive and we do not have in mind that our problems in this area are legislative, but rather that they are enforcement problems.

Now that statement that I just made would have to be subject to what I said yesterday about the possibility of legislation in the proxy area and, more importantly, the possibility of working out treaty arrangements with other countries whereby the Government agency could obtain access to information, which we presently cannot obtain because it won't be given to us by persons subject to foreign laws which prohibit it being given.

Mr. RUSHER. You agree entirely, though, with the proposition that enforcement is the problem rather than new legislation? Isn't it possible that new legislation might aid you in the problem of enforcement?

Mr. ARMSTRONG. Except for the two areas that I have just indicated, we do not have in mind at the present time that any legislation is needed. These are very strong disclosure provisions, very comprehensive, and we think, and our staff, which has had long experience in these matters, assures us that these disclosure provisions are working very well. And, certainly, in my own experience as a member of the Commission for almost 4 years, that is my opinion.

Mr. RUSHER. Do you feel they are working equally well with regard to foreign investment?

Mr. ARMSTRONG. To foreign investments? I have no indication that they are not, except in the limited area of proxies, which I mentioned, and also except in the investigative and, the enforcement area, in regard to the enforcement of the registration provisions and so on as to which we testified yesterday.

Do you have anything you would like to add to that, Mr. Loomis?

Mr. LOOMIS. Well, just this, that there are presumably defects in the enforcement, difficulty in the enforcement of these reporting requirements with respect to particular transactions. But it has not been our experience that an actual transfer of control goes undetected.

Mr. ARMSTRONG. And I think it would be a mistake to have the impression that our enforcement difficulties are significantly in the foreign area. The vast bulk of our enforcement difficulties are not in the foreign area.



I will give you an example. We mentioned that a person who is an officer or director, and a 10 percent stockholder of a listed company, has to file ownership reports stating his holdings of stock in the company and changes therein. And it has been our policy, when an officer or director did not file those reports in accordance with our requirements, that we insist that he do so. We have had two cases in the past 2 years, in which the officials, the secretary of the company, has advised us that he has a recalcitrant director who simply won't file a report, he does not believe in filing a report with the Commission, and we have gone into the Federal district court and sued the individual, asked the court for a mandatory injunction to require him to comply with our rules, and at that point the individual complies. Now those are not foreign disclosure problems; they are right here in this country.

Mr. RUSHER. However, if a person wanted to acquire more than 10 percent of the stock of an American corporation, it would be a considerable help to him to do it through the technique of a numbered account, wouldn't it?

Mr. ARMSTRONG. I do not know about the numbered account, but I could certainly conceive, and it is perfectly obvious to conceive, where it might be possible to do it through some of these foreign institutional purchases. There is no question about that in our minds. That is the reason that we would like to be able to get information from those countries.

Senator HRUSKA. Mr. Armstrong, yesterday and again today you refer to some foreign laws which prohibited the disclosure of certain information.

Mr. ARMSTRONG. Yes, Senator.

Senator HRUSKA. Would any of that information which they are prohibited from disclosing fall within the substance of the material that is required to fill out properly form 8-K?

Mr. WOODSIDE. Mr. Chairman, I think that it is conceivable that such a question might arise. To my knowledge, except in the tangential aspects of certain proxy matters, I do not recall that the reporting requirements by American companies have been defeated by statutes such as appear on the Swiss books.

It has occurred, as testified hereto yesterday, and as indicated in the chairman's statement, that, in certain investigatory and enforcement activities, where you are inquiring as to a particular individual who is beyond your jurisdiction, you may have some difficulty in securing all the information you want. But except in the proxy matter, and except in this matter of certain fraud cases that we have referred to, I do not know of any serious problem that has been posed to the Commission's administration of securities laws by the Swiss financial institutions or other foreign financial institutions.

This subject has received an awful lot of attention because of the notoriety of certain proxy contests. But when you analyze those proxy contests, the problem, as we see it, in the enforcement of our laws, is not one which I would characterize as a major one on the basis of the facts we have so far.

Senator HRUSKA. With due deference to your desire to give the committee information here, Mr. Armstrong, I do not know that I can be very impressed with that paragraph appearing on page 3,

that says, assuming no deliberate violation of laws, these provisions for reporting are good, and they are fine. Now, assuming no deliberate violation of our law, they are good for domestic purposes and there isn't any trouble with them whatsoever, is there? In other words, if you make the assumption that the law is not being violated, these reporting statutes are very fine and they are ideal and they are working perfectly, and yet we know that is not true domestically nor, conceivably, it does not have to be true as to foreign owners.

Mr. WOODSIDE. Mr. Chairman, we are talking about companies which are registered and listed on American exchanges and which are subject to our jurisdiction by virtue of the Securities Act. Except where you are dealing with a foreign issuer, the company, itself, is within the jurisdiction and reachable. The duty of reporting in large measure rests on the company.

Senator HRUSKA. The company is reachable, but not the owner or the purchaser of the security, is it?

Mr. WOODSIDE. Our reporting requirements largely refer to the corporation, and the corporation reports. Now obviously, we could not appear before any congressional committee and say that everybody is complying with the law. There are people who, by mistake or deliberately, do not comply with reporting requirements, and that is part of our job to make sure that they do, and that the wrongdoer is caught. But that is the only reason for that qualification.

Senator HRUSKA. Well, would that company be in possession of enough information to determine who are the parents, for example, as defined in the statute?

Mr. WOODSIDE. I know of no case where the management of an American company is not very much aware as to whom it looks for control. That is one of the most sensitive areas in American business, and it is the first thing we hear about at the mere suggestion that someone is seeking to acquire a position in a company. And it is the fact that that occurs which we are trying to say to you comes to our attention promptly, early and usually we can deal with it. The fact of a change of a control in one of these companies almost immediately is a matter of public record.

Now you may have some difficulty in identifying the ultimate person behind that, but the fact of control, the fact of a change in control, the fact of the acquisition of a major interest in a company, even though that does not relate to control, becomes a matter of notoriety promptly—

Senator HRUSKA. Of course, those are not necessarily beneficial owners, are they?

Mr. WOODSIDE. They may not be beneficial owners, but from the point of view of the security of the United States, the fact is the important thing, and not who the particular person is.

Senator HRUSKA. On the contrary, I think we would be interested, certainly, the subcommittee would be interested in the beneficial owner. They are not interested in knowing that a Swiss trust, or a Swiss trust officer, or a Swiss bank, owns certain stock, they would want to know who is issuing instructions to that bank, how to hold that stock and what to do with it. It is that with which the committee is particularly interested.

Mr. WOODSIDE. What I am saying, Senator, is that, when that situation occurs, then if there is a security problem you know about it,

and I presume that the people who are responsible for the security of this country do not lightly deal with people they do not know.

Senator HRUSKA. Say that again?

Mr. WOODSIDE. Do not lightly deal with the people they do not know in matters affecting the country's security. But the fact of a change in control is a matter of public record in any case that I know of, promptly.

Senator HRUSKA. Well, they do know them, they know the acting purchaser, or the person with whom they are dealing—and they have no way of knowing, and I presume that that falls within the provision of the statutes of Switzerland or Holland or England, where they would be not only not required to disclose the beneficial party, but would be prohibited from doing so.

Mr. WOODSIDE. I am sorry, sir, I am not sure whether you are talking about the American company or someone else.

Senator HRUSKA. I am talking about the purchase by a Swiss bank, for example, of stock in an American company.

Mr. WOODSIDE. Let's assume that a foreign interest, whether it be Swiss or otherwise, acquires a major position in an American company, that can be an investment position or it can be something more than that. For it to be effective as a measure of dictating management, they have to do something more than own it, they have to approach someone for representation on a board of directors. And when that approach is made, it is known, the fact is known, and it is a subject of wide comment. It is one of the first things we hear about because the people who are approached are down to see us about whether or not our statutes, in fact, impinge upon the problem.

We have had companies which are not subject to our jurisdiction come in and subject themselves to our jurisdiction by the listing process in order to put the whole matter of a proxy contest under our rules.

But the thing I am trying to say to you is that the acquisition a major position by a foreign interest in a domestic corporation that could conceivably affect the security of this country, as I understand it, is not something that can be long concealed.

Senator HRUSKA. Well, it would not be concealed but its full and true nature would not be necessarily disclosed?

Mr. WOODSIDE. What I am trying to say to you, though, is the fact that you might have a security problem is public knowledge and can be dealt with.

Senator HRUSKA. Suppose a Swiss bank controlling an interest in a given corporation comes over and selects a board of directors and elects them at the meeting. How can that be dealt with? If that is accomplished, we know we have a security problem, but how can it be dealt with?

Mr. WOODSIDE. Senator, all I am trying to say is that the fact would be known, the fact would be one which would be brought to the attention of the authorities that have the problem of security, which is not our problem. But so far as reporting is concerned, the disclosure to the public of the facts concerning the fact of the change of control, it would be there.

Senator HRUSKA. Well, you see that is where this committee starts. Apparently, where you wind up, we start, and we are interested in knowing who it is that is asking, or directing that Swiss bank, who



is the actual legal owner and the registered owner of that stock—who are the people who are directing that bank to elect certain directors or fix certain corporate policies. That is where we come in.

That is why I said I was not too much impressed with this idea that, while the assumption is that the statute is not violated, it still does not help us in our problem very much. That is what I am trying to get at.

Mr. WOODSIDE. Well, I am not sure that your problem is a problem of securities legislation at all as I understand it, but I think, based upon our experience with the reporting problem, that the appearance of a controlling interest in an American corporation would be immediately reportable. The burden is on the company to provide such information as it has about beneficial ownership. It might conceivably occur that we could not, because of jurisdictional limitations, pursue beneficial ownership to its ultimate conclusion. It might be that we could not, but certainly we would have the investigatory power, so far as the securities legislation is concerned, and we could stop any sale of securities if we believed there was not correct disclosure, we could delist if we thought it was not properly reported, and the fact of the foreign control would become known. And from the point of view of the security of this country, that is assuming that the company is a defense company, I would presume that all the forces of our Government that have to do with the acquisition of intelligence that is material to the security of the United States would be brought to play upon that. And I have no doubt that it would not be long before they knew who they were dealing with.

But I do not think it would come through us; I do not think it could come through us. We are not international policemen, we do not have the power to issue search warrants even in this country, and, obviously, we cannot cross international boundaries to secure process. But there are other agencies of the Government that have that power and use it very effectively. And I cannot conceive that the acquisition of any major company by a foreign interest, the control of that company being acquired by a foreign interest, would present a problem which could not be dealt with as a security problem.

What I am trying to say is I think there is a limit to which you can push disclosure statutes in the business world, having to do with securities, in terms of a broader concept of Government control over national defense and national security. There are certain things a disclosure statute cannot be made to do.

Senator HRUSKA. That is right.

Mr. WOODSIDE. But the fact that you would have a problem, securitywise, would be brought to your attention so quickly, that I do not think that—

Senator HRUSKA. Of course, what we are interested in is not so much the bringing of it to our attention, as to have implements with which to work to meet that situation. That is what this part of the legislative process that is going on right now is for. And, of course, your sphere is not quite that broad and it does not quite go that far. It is part of the general pattern. But we are interested in equipping the necessary authorities with such implements as are necessary to get the job done.



Mr. WOODSIDE. Well, the difficulty in which I am placed as a member of the staff of the Commission, and I think in which the Commission is placed, is that we really are not authorized by the Congress to be concerned with the security problem, and I am not sure we are in a position to advise you what the present tools and remedies are which are available to people who are concerned with the security problem.

Senator HRUSKA. Perhaps not, and I hope I did not create that impression in your mind, that you were being criticized because you haven't the tools or because you cannot give us the final answer. You are giving very fine answers to a lot of inquiries which this committee has had in mind for a long time, and to that extent you are making a good contribution.

And, please, Mr. Armstrong, do not construe my statement that I was not too impressed with this, as bearing at all on your sincerity or good faith or competency.

Mr. ARMSTRONG. Thank you, Senator.

Senator HRUSKA. It was not that at all. It was directed to the ultimate problem to which this committee is faced.

Mr. ARMSTRONG. Thank you, Senator.

Well, I think Mr. Woodside has brought out very nicely the limitations upon us under the laws which we administer and the very much broader problem to which you gentlemen are addressing yourselves.

Senator HRUSKA. Anything further?

Mr. RUSHER. I want, Mr. Woodside, to ask you which agency of Government you feel it is that presently has—and this is, I grant you, not within your immediate competence here, but you spoke of it—the power to find out, once the fact of foreign control is established, who the beneficial owners are? I am not aware that any agency of the Government is in a position to do that, and I wondered whether or not you know of one?

Mr. ARMSTRONG. We would have in mind the Department of Defense, the Federal Bureau of Investigation, CIA——

Mr. RUSHER. Well, it eventually goes back to this, that someone has to get to the Swiss bankers and ask them who is running that account?

Mr. ARMSTRONG. Did you get the Department of State? There are four of them—Defense, FBI, CIA, and State. And I believe the Treasury may be involved in reference to movement of funds, too.

Mr. RUSHER. I do not suppose it is easily established just how much information can be obtained, but certainly, Senator, our experience in investigating the matter for the Internal Security Subcommittee indicates that it is not as simple to find out these matters, perhaps, even for the FBI, as might first appear.

Mr. Armstrong, do you happen to know, with regard to the particular case that appeared in this morning's Times, how rapidly this acquisition of 27 or more percent of the stock of an American utility company by a foreign syndicate was called to the attention of the Commission by the management?

Mr. ARMSTRONG. Two or three weeks ago, I am advised. Very promptly——

Mr. RUSHER. After the acquisition?

Mr. ARMSTRONG. Yes, sir.

Mr. RUSHER. The American management called it to your attention?

Mr. ARMSTRONG. Yes, sir.

Mr. RUSHER. And at that point, what steps did you take—any particular ones from the standpoint of the Commission?

Mr. ARMSTRONG. Well, I will have to ask Mr. Garrett to testify on this because his report to the Commission yesterday was verbal, merely 5 minutes or so, to advise the Commission that this situation had occurred, and the fact that the staff was obtaining information and that information was being furnished to it. And the actual steps that have been taken, I do not know.

Why don't we get Ray Garrett to come over here on that?

Mr. RUSHER. If he is not here today—

Mr. ARMSTRONG. We can get him over here in 10 minutes.

Mr. RUSHER. Well, all right.

Senator HRUSKA. I think it would be helpful.

Mr. ARMSTRONG. Oh, yes.

The reason that Mr. Woodside is not able to testify on that is because that happens to be in the other division because it is under the Holding Company Act.

Mr. RUSHER. While we are waiting on that, Mr. Armstrong, is there any way or reason why the Commission can assert, or could assert, confidently that there is not a large amount of avoidance of the section 16 inside trading provisions by people, individuals, with Swiss accounts? In other words, can you say definitely, that there is not a great deal of such avoidance going on, and, if so, could you tell us the basis of your confidence?

Mr. ARMSTRONG. Well, that is a difficult question.

Read that question again, will you, please?

(The question was read back by the reporter.)

Mr. ARMSTRONG. I will have Mr. Woodside respond to that.

Mr. WOODSIDE. I think perhaps the best way to answer that question is to explain a little bit how this system works. We receive something around 32,000 or 33,000 16-A reports a year. Those reporting requirements relate to officers and directors of listed companies and owners of equity securities in the amount of 10 percent or more. Now, we have had complaints from time to time by the officials of an American corporation that there were rumors that an accumulation of stock was going on, and the suspicion was that the accumulation was being carried out in such a way as to place the stock, say, in 3 or 4 accounts, no one of which would equal 10 percent—in other words, deliberate evasion by someone of the reporting requirements, assuming that these interests all reflected the same beneficial interest. And we have considered from time to time the problem that perhaps there were, on occasion, syndicates operating for the purpose of acquiring a sizable block or a sizable position in a domestic company through the device of having the shares split up in street names, 3 or 4 accounts, so that the reporting requirement was evaded. Now, when that occurs, it occurs for only one reason, basically, and that is that the person or persons acquiring the block intend, at some point of time, to exert a pressure or a lever, leverage position, upon the management of that company, to accomplish some objective. Usually, it is for representation on the board; it may be for purposes of nego-

tiating a merger; it may be for purposes of developing a business relationship. Sooner or later it comes out who they are and what they want.

And the reason I can say to you I do not think it has been a very significant problem over the years, is because the frequency with which that occurs would impress me as indicating that that device is not used too much because, unless it does come out, then presumably all that is involved is the taking of an investment position, and taking of an investment position is not something that really is too material to anyone, it seems to me. Now you apply the same problem to the matter of ownership of securities by foreign interests, likewise divided among several accounts in order to preserve anonymity—and, again, people just do not go out and invest tremendous sums of money in the securities of American companies, using that kind of a device, unless they have an objective. And the objective is almost invariably, I would say, a reportable objective. And, again, I would say the reporting of the fact, at which point we learn a lot about what goes on and who has done what—the reporting of the fact when it does occur, indicates that that sort of gimmick or device has occurred with sufficient infrequency to make me believe that by and large we can reply pretty well upon the integrity of the reporting requirements.

Now that is not to say everyone complies with the law. Every pedestrian does not follow the street signs. But I do not think that I could say to you that the Commission has been concerned with having been faced with any major problem of the evasion of the 16-A reports, whether it be by foreigners or citizens, simply because of the fact that when the acquisition occurs, it is usually for some purpose and the purpose eventually comes to light, and then you discover that there was something done in violation of the rules. And when that does come to light, you can deal with it. And the fact that it does not come to light very often indicates to me that you do not have much to be concerned about, basically.

MR. RUSHER. Let's take another illustration, Mr. Woodside. Just let me state a supposition case.

Suppose an officer of an American corporation, knowing of the pending rise in stock, were to open a Swiss account and in that account they make purchases of that stock, and after they resell it, close out the account. What internal pressure would arise which would ultimately bring that to light?

MR. WOODSIDE. Well, you are asking, in effect, how do you do a detective job, and how do you enforce the law when someone is trying to evade the law.

The officer has the duty to report. The company also has the duty to report, because it files annual reports and ownership of management, I think, is a specific requirement in those forms. So someone has to make inquiries. And an officer of a company who deliberately sets about concealing his ownership and his activities perhaps could get away with it for quite a while—

MR. RUSHER. He could get away with it once, I assume, in the absence of some special fact—

MR. WOODSIDE. But sooner or later he would run afoul of one of the provisions, and we would catch him. And when that occurs, he



has committed a criminal offense and he is subject to a criminal prosecution.

Mr. RUSHER. I did not understand how you said that you would catch him.

Mr. WOODSIDE. It has been our experience that people do not, over a long period of time, evade the law and get away with it.

Senator HRUSKA. You are saying crime does not pay.

Mr. WOODSIDE. Well, there are a good many people who are reposing in various prisons in this country who learned the hard way that these securities acts have some teeth in them.

Mr. RUSHER. There may be others who have gotten away scot free and may still be doing so. I was just asking, could you state with confidence that they are not? That was my original question.

Mr. WOODSIDE. The officers and directors of this country are not evading the reporting requirements as a generalization? That is an impossible question, and it is impossible to answer.

Mr. RUSHER. That there are not a large number of evasions taking place with the Swiss numbered accounts?

Mr. WOODSIDE. It would be my judgment that that was a fair conclusion.

Mr. RUSHER. On what basis?

Mr. WOODSIDE. The one I just explained to you.

Senator HRUSKA. Do you have something to add?

Mr. HELLER. Perhaps I am more of a detective than Mr. Woodside is, Mr. Rusher.

Any rise in price of a listed security is immediately investigated by our New York office which maintains a constant surveillance of all the securities traded on the New York Stock Exchange. If there is an unexplainable rise—

Mr. RUSHER. This could be a perfectly explainable rise, but an insider, however, would have advance notice?

Mr. HELLER. All right, but that is not public. If there is no public explanation for the rise—and my judgment is, even if you act through a Swiss bank, the transactions will be executed on an American exchange by the Swiss bank—the first thing we would do, we have done, is to find out who is buying the shares and why they are buying the shares. The first thing that happens, you will find that a Swiss bank is buying the shares. You won't know why. Then, naturally, you go to the company and say: "Do you have any explanation of why this stock is going up, what business affairs or activities are you engaged in which could account for this rise."

Then they will tell you. Then suspicion immediately is cast on every member of the board of directors and every officer who presumably knows this. Then you interrogate them as to whether they had anything to do with the purchases by the Swiss bank and you can examine their bank accounts and you can see whether they have written checks to the order of Swiss banks and sent them out. So there are investigatory processes by which you can determine whether an American director or officer is buying through Swiss banks.

Mr. RUSHER. I was not thinking so much of an unexplained rise in stock; just an ordinary rise, let us say.

Mr. HELLER. Well, if a director was using inside information and making his purchases through the Swiss bank before the stock was



split, or before public notice was given that it was about to be split, then our inquiry would go to the company as to what might cause this rise, and they would tell you they were contemplating splitting this stock, and you would interrogate whether they bought. These are not unusual procedures.

Mr. RUSHER. And a director who was concealing his ownership would presumably conceal the fact of a Swiss account?

Mr. HELLER. If he is going to commit perjury, Mr. Risher, I do not know what we can do. But I do say we can find and check his funds, his bank accounts, his checking accounts. I do not think any Swiss bank is going to buy securities on the New York Stock Exchange without getting dollars from somebody to do it with. And if the money goes out, we will trace it.

Mr. RUSHER. Well, too, in speaking of this, I have not intended to attempt to imply or establish any particular quantitative situation. I am much more interested in whether or not mechanics exist whereby these things could happen, and the degree to which they happen, particularly if there is internal security problem.

Mr. HELLER. Something is always possible. I agree with Mr. Woodside that the great majority of our American directors and officers are not utilizing Swiss banks to engage in stock trading.

Mr. RUSHER. I agree with you, we are merely trying to find out whether or not they could be concealed by someone who, not being one of the great majority, wanted and had something to conceal.

Mr. ARMSTRONG. I think you have stated right there the problem that we, the Commission, face because agreeing, as the Commission does, with the statements made by Mr. Woodside and Mr. Heller, on the incidence of such transactions, substantially indicating the probable lack of incidence of such transactions, nevertheless, the fact that the possibility does exist, is one of the things that keeps us working on it and dealing with it all the time. It is very important to understand the work that we do up in our New York office in connection with watching the prices of securities on the exchanges to get any kind of an indication we can, as to whether there is any improper activity going on.

I think it might be helpful for the record, Senator Hruska, if we submitted, from the 22d Annual Report of the Commission to the Congress, which was submitted to Congress on January 3, 1957, the material on manipulation and stabilization that begins at the bottom of page 97 and carries over to the top of page 99. There are some very interesting data as to just how we go about policing the quotations, that is to say, watching the quotations both on the listed and unlisted markets, too.

Senator HRUSKA. That material will be inserted in the record at this time. Will you please mark it for the reporter?

Mr. ARMSTRONG. Yes, sir; I will.

(The material referred to was marked "Exhibit No. 459" and reads as follows:)

#### EXHIBIT No. 459

#### MANIPULATION AND STABILIZATION

#### MANIPULATION

The Exchange Act describes and prohibits certain forms of manipulative activity in securities registered on a national securities exchange. The pro-

hibited activities include wash sales and matched orders, if effected for the purpose of creating a false or misleading appearance of trading activity or with respect to the market for any such security; a series of transactions in which the price of such security is raised or depressed, or in which the appearance of active trading is created, for the purpose of inducing purchases or sales by others; circulation by a broker, dealer, seller, or buyer, or by a person who receives consideration from a broker, dealer, seller, or buyer, of information concerning market operations conducted for a rise or a decline; and the making of material false and misleading statements by brokers, dealers, sellers, or buyers, or the omission of material information regarding securities for the purpose of inducing purchases or sales. The act also empowers the Commission to adopt rules and regulations to define and prohibit the use of these and other forms of manipulative activity in securities whether or not such securities are registered on an exchange or traded over the counter.

The Commission's market surveillance staff in our Division of Trading and Exchanges in Washington and in our New York regional office and other field offices observes the ticker-tape quotations of the New York Stock Exchange and the American Stock Exchange securities, the sales and quotation sheets of the various regional exchanges, and the bid and asked prices published by the National Daily Quotation Service for about 6,000 unlisted securities to see if there are any unusual or unexplained price variations or market activity. The financial news ticker, leading newspapers, and various financial publications and statistical services are also closely followed.

When unusual or unexplained market activity in a security is observed, all known information regarding the security is evaluated and a decision made as to the necessity for an investigation. Most investigations are not made public so that no unfair reflection will be cast on any persons or securities and the trading markets will not be upset. These investigations, which are conducted by the Commission's regional offices, take two forms. A preliminary investigation or "quiz" is designed rapidly to discover evidence of unlawful activity. If no violations are found, the preliminary investigation is closed. If it appears that more intensive investigation is necessary, a formal order of investigation, which carries with it the right to issue subpoenas and to take testimony under oath, is issued by the Commission. If violations are discovered, the Commission may suspend or revoke the registration of a broker-dealer or it may expel him from the National Association of Securities Dealers. Similarly, a member of a national securities exchange may be suspended or expelled from the exchange. The Commission may also seek an injunction against any person violating the act and it may recommend to the Department of Justice that any person violating the act be criminally prosecuted. In some cases, where State action seems likely to bring quick results in preventing fraud or where Federal jurisdiction may be doubtful, the information obtained may be referred to State agencies for State injunction or criminal prosecution.

The following table shows the number of quizzes and formal investigations initiated in 1956, the number closed or completed during the same period, and the number pending at the ending of the fiscal year:

*Trading investigations*

	Quizzes	Formal investigations
Pending June 30, 1955.....	107	9
Initiated during fiscal year.....	69	1
Total.....	176	10
Closed or completed during fiscal year.....	74	3
Changed to formal during fiscal year.....	1	
Adjustment <sup>1</sup> .....	1	
Total.....	76	3
Pending at end of fiscal year.....	100	7

<sup>1</sup> Two quizzes were combined as 1 case during year.

Mr. RUSHER. Mr. Armstrong, I would like to cover one other area just briefly, if I may?

Mutual funds and investment funds are managed, as I understand it, by investment houses. Does the Commission have means of checking whether such an investment house has abused its fiduciary position by accumulating large blocks of stock and funds which they manage for other than investment purposes, such as participating or aiding a participant in a control battle? This would apply, I take it, not only with regard to mutual funds, but insurance companies, union pension funds, and the like?

Mr. ARMSTRONG. We do have the means of investigating that situation. We have similar investigative powers under the Investment Company Act of 1940, as we have under the Securities Act and the Exchange Act that we have been discussing here.

This year, for the first time in the history of the Commission, we have recommended to the Appropriations Committee that we be provided with funds in our 1958 appropriation to make inspections of investment companies on a limited basis. The Commission historically has never exercised the right to make inspections of investment companies which the Investment Company Act of 1940 gives it.

Now we made that request of the Appropriations Committee, not because of the type of situation that you were describing, but because of 1 or 2 other situations that we found where investment company funds had not been handled in accordance with the statements or purposes that were provided in the charters of those companies, and we thought there should be a little more checking into that problem by the Commission.

Now, also, the Investment Company Act of 1940 contains a section which authorizes the Commission to make a study of the investment company industry, having regard particularly to size. Again, that provision had never been implemented by the Commission, but in our 1957 appropriation and in our 1958 appropriation requests—in 1957 we received and in 1958 we requested some funds to make a study under that section of the act. And that study will have some of the objectives which you have just described. In other words, to find out more about that situation. Now in asking for that—excuse me, Senator Hruska—we have not been aware of any abuses, but we felt, there is a section in the act, that has been in the act for 15 years, that we ought, if the Congress provides the staff, to implement it.

Thank you, Senator Hruska.

Senator HRUSKA. What do you mean by investment company? How broad is that term?

Mr. ARMSTRONG. Well, the investment company is a particular type of company as defined in the act, but, generally speaking, is engaged in holding securities for investment purposes. There are two types of the so-called open-end investment company, which is constantly selling—

Senator HRUSKA. What is commonly referred to as mutual?

Mr. ARMSTRONG. Yes, sir, and there is the closed-end company.

Senator HRUSKA. Is that the act which you referred to, to extend to the insurance companies, union pension funds or any pension funds of any kind, where there is apt to be a sizable investment of funds?

Mr. ARMSTRONG. No, sir; we have no jurisdiction over the union pension funds, although there is legislation pending in the Congress which would give us some jurisdiction over them. Whether that will pass, of course, is up to Congress.



Mr. RUSHER. The particular matter that raised that question, again just looking at the article we found this morning, referring to this particular foreign syndicate purchase of an American utility company, I notice down toward the end of the article, the paragraph:

On November 30, 1956, the largest single other investment in the utility concern was some \$4,600 shares held by 3 of the Axe-Houghton mutual funds. It is not known whether or not this stock is still held by these funds.

Has the gentleman who was going to explain about that subject come in?

Mr. ARMSTRONG. He has not arrived, but he is on his way over.

Mr. RUSHER. We can suspend that.

Mr. ARMSTRONG. On page 183 of our annual report, there appears a paragraph on the growth of investment company assets and a paragraph on the study of the size of investment companies. I would suggest, Senator HRUSKA, that that be offered for the record?

Senator HRUSKA. Very well, that will also be inserted.

Mr. ARMSTRONG. Thank you, sir.

(The information referred to was marked "Exhibit No. 460" and is as follows:)

## EXHIBIT No. 460

## GROWTH OF INVESTMENT COMPANY ASSETS

The striking growth of investment company assets during the past 15 years, particularly in the most recent years, is shown in the following table:

*Number of investment companies registered under the Investment Company Act of 1940 and the estimated aggregate assets at the end of each fiscal year 1941 through 1956*

Fiscal year ended June 30	Number of companies				Estimated aggregate assets at end of year (in millions)
	Registered at beginning of year	Registered during year	Registration terminated during year	Registered at end of year	
1941.....	0	450	14	436	\$2,500
1942.....	436	17	46	407	2,400
1943.....	407	14	31	390	2,300
1944.....	390	8	27	371	2,200
1945.....	371	14	19	366	3,250
1946.....	366	13	18	361	3,750
1947.....	361	12	21	352	3,600
1948.....	352	18	11	359	3,825
1949.....	359	12	13	358	3,700
1950.....	358	26	18	366	4,700
1951.....	366	12	10	368	5,600
1952.....	368	13	14	367	6,800
1953.....	367	17	15	369	7,000
1954.....	369	20	5	384	8,700
1955.....	384	37	34	387	12,000
1956.....	387	46	34	399	14,000
Total.....		729	330		

## STUDY OF SIZE OF INVESTMENT COMPANIES

Under section 14 (b) "The Commission is authorized, at such times as it deems that any substantial further increase in size of investment companies creates any problem involving the protection of investors or the public interest, to make a study and investigation of the effects of size on the investment policy of investment companies and on security markets, on concentration of control of wealth and industry, and on companies in which investment companies are interested, and from time to time to report the results of its studies and investigations and its recommendations to the Congress." This provision has been in effect since the adoption of the Act, but no study or investigation has been made.



With funds made available by the Congress in its 1956 and 1957 fiscal year appropriations the Commission has commenced a study under this section of the Act. The great expansion in the aggregate assets of investment companies registered under the Investment Company Act, from approximately \$2.5 billion in 1941 to the present total of approximately \$14 billion, the rapid growth in size in recent years of investment companies, and the growing significance of investment companies as holders of equity securities traded in the market are some of the reasons for such a study. As the first step, the Commission has retained the services of Prof. Paul F. Wendt, professor of finance at the University of California (Berkeley), and two associates on the faculty, James E. Walter and James R. Longstreet, to report on a program for research and study for the Commission. When this necessary groundwork has been completed the Commission hopes to be in a position to determine the statistical and other data which may be relevant, and the methods to be used in obtaining them.

Mr. RUSHER. Mr. Uriell was kind enough to prepare some information, I understand, with regard to the internal security problem of the Commission.

I just wonder if he has that conveniently available? Could we have that at this time, Mr. Uriell?

Mr. URIELL. Well, if it is permissible with the subcommittee, I will read that for the record:

Pursuant to Executive Order 10450, the Commission has authority to designate positions within the agency as sensitive. Sensitive position is defined in the regulations relating to the security program of the Securities and Exchange Commission as follows:

As used herein, the term "sensitive position" shall mean any position in the Commission, the occupant of which could bring about, because of the nature of the position, a material adverse effect on the national security. Such positions shall include, but shall not be limited to, any position the occupant of which (1) may have access to security information or material classified as "secret" or "top secret" or any other information or material having a direct bearing on the national security, and (2) may have opportunity to commit acts directly or indirectly adversely affecting the national security.

To date, the Commission has designated 39 positions as sensitive. Relating to the 39 employees presently holding these positions, 32 have been cleared by the Commission following a full field investigation conducted by the Civil Service Commission. Reports of full field investigations for six of the employees have not yet been received from the Civil Service Commission. These six employees are new appointees to these positions. One report of a full field investigation has been recently received from the Civil Service Commission but has not yet been presented to the Commission for clearance.

The positions designated as sensitive by the Commission are as follows:

Executive assistant to the Chairman and his secretary and his security legal officer. Executive Director—

Mr. ARMSTRONG. Mr. Uriell is the incumbent. [Laughter.]

Mr. URIELL. Executive Director and his secretary; Assistant Executive Director and his secretary; General Counsel and his secretary; Associate General Counsel; attorney in Office of General Counsel assigned to the security program; Director, Division of Corporation Finance and his secretary; Associate Director, Division of Corporation Finance; valuation engineer, Division of Corporation Finance; Director, Division of Corporate Regulation and his secretary; Associate Director, Division of Corporate Regulation; Director, Division of Trading and Exchanges and his secretary; Associate Director, Division of Trading and Exchanges.

Director of Personnel (personnel security officer) and his secretary; records officer; Secretary of the Commission; Assistant Secretary of the Commission; chief accountant of the Commission and his secretary; Director, Office of Opinion Writing and his secretary; nine regional administrators.

Following that list are actions which the Commission has taken pursuant to Executive Order 10450:

*Suspensions, separations, and resignations—Executive Order 10450, as amended*<sup>1</sup>

Number of employees whose files contained information falling within the categories set forth in paragraphs (2) to (8) inclusive of sec. 8 (a) of Executive Order 10450, and who resigned before determination was completed-----	2
Number of employees suspended and who resigned before hearing-----	1
Number of employees suspended and restored to duty after hearing-----	2
Number of employees suspended and terminated after hearing-----	2 1

<sup>1</sup> All of the above persons were incumbents of nonsensitive positions.

<sup>2</sup> Restored to duty following *Cole v. Young* decision.

Mr. RUSHER. And is presently employed by the Commission?

Mr. URIELL. And is presently employed by the Commission.

Mr. RUSHER. In other words, if I understand that correctly, that would be the case of a person who was not under 10450, suitable for sensitive position, but presently employed by the Commission in a so-called nonsensitive position?

Mr. URIELL. Yes.

Senator HRUSKA. What is the date of that Executive Order 10450?

Mr. URIELL. April 27, 1953.

Senator HRUSKA. Pardon?

Mr. URIELL. You asked for the date, Senator. It was issued April 27, 1953.

Mr. ARMSTRONG. Excuse me, may I interrupt for just a moment?

If the committee would care for it, I would be glad to read into the record a résumé of the types of information which we receive, which might be types that have some security factor to them. Just a short statement—

Senator HRUSKA. Could that material be referred to the committee for its perusal?

Mr. ARMSTRONG. Certainly.

Senator HRUSKA. And treated in that way?

Mr. ARMSTRONG. Certainly.

Senator HRUSKA. That would probably be preferable, in view of the time limitation to which we are subject.

Mr. ARMSTRONG. Yes, sir.

(The material referred to was submitted by Mr. Armstrong, in a letter to Chairman Eastland as follows:)

SECURITIES AND EXCHANGE COMMISSION,  
Washington, D. C., April 17, 1957.

HON. JAMES O. EASTLAND,  
United States Senate,  
Washington, D. C.

DEAR SENATOR EASTLAND: At the hearings before your Subcommittee on Internal Securities on Wednesday, April 10, 1957, we requested and received permission to insert into the record a statement setting forth generally the types of classified material handled by the Commission.

I am enclosing a memorandum prepared by the Executive Director to this effect and would appreciate it being inserted in the record.

Sincerely yours,

J. SINCLAIR ARMSTRONG, *Chairman.*

## MEMORANDUM OF THE EXECUTIVE DIRECTOR RE CLASSIFIED MATERIAL HANDLED COMMISSION

The Commission is not empowered, under Executive Order 10501, to originate classified information. However, we understand Executive Order 10501 to require the Commission to safeguard unclassified information which it has received and which it believes should be classified. Of course, in replying to previously classified inquiries from other agencies or departments, the Commission is required to place the transmitting classification on its replies.

The Commission may receive information or material with a classified designation from several sources, particularly the following:

(1) The Department of State, particularly as to matters relating to foreign securities and foreign economic information;

(2) The White House, Office of Defense Mobilization, and the General Services Administration, particularly as to matters of physical security of documents, emergency relocation plans, and safeguarding of indispensable operating records;

(3) Certain special interagency governmental committees engaged in gathering and analyzing various statistics of a classified nature, to which certain staff members of the Commission have been appointed from time to time;

(4) The Civil Service Commission, the Federal Bureau of Investigation, and other Government agencies, as to matters of personnel background investigations, under the terms of Executive Order 10450 and the Civil Service Rules and Regulations, through the security legal officer and the personnel security officer. Such information or material so received has already been classified by the originating agency prior to receipt by this agency.

From time to time, material is inadvertently included in various public filings made with the Commission pursuant to the statutes and rules administered by it, which material, in the opinion of the staff, might be of a classified nature. Such information may, for example, refer to military potential or unit production sales in defense contracts, or mining and metallurgical information with respect to the discovery and production of strategic minerals. Immediately upon the discovery of any of this type of information, it is removed from the public files and safeguarded until a determination as to its classification can be made by the appropriate classifying agency.

The Commission's rules now require the elimination from public filings of information contained in or relating to contracts involving the national defense. The Commission carries on correspondence with the appropriate classifying agency including agencies such as the Canadian Atomic Energy Commission, and this correspondence is classified.

A. K. SCHEIDENHELM,  
*Executive Director.*

MR. RUSHER. I believe the gentleman whom we have been waiting for has arrived.

MR. ARMSTRONG. Yes. May I present Ray Garrett, Jr., the Director of the Division of Corporate Regulation, which assists the Commission in connection with the Holding Company Act.

MR. RUSHER. Mr. Garrett, we had our attention called to this article in the New York Times this morning.

MR. GARRETT. Yes, sir.

MR. RUSHER. I wonder whether it is your impression that control is intended by this large purchase and it is not, therefore, merely an investment proposition—the control is intended?

MR. GARRETT. Well, I would hesitate to say that it is because we have not yet gotten into the facts. At the time, we knew of the sale, or that the sale was intended abroad, at that time we were assured and believed that no control was intended. The subsequent holding of the shares by the Dutch bank as it appears and the apparent interest in the Dutch bank in the management of Cenpuc indicates that there is something more than a mere distribution, or maybe something more than a mere distribution. But I should say that this all will become a part of the processing of Cenpuc's exemption application



under section 3 (a) (5), and I should not indicate in any way that I have any final view on the thing, because it is a matter which we must investigate, and on which we must advise the Commission.

Mr. RUSHER. You say initially you were assured it was not for control purposes that the purchases were made?

Mr. GARRETT. Yes.

Mr. RUSHER. By whom was that assurance given?

Mr. GARRETT. Mr. Edersheim and by his attorney, Mr. Bratter. Edersheim is with—I cannot say that he is a partner, of the firm of Burnham & Co., New York.

Mr. RUSHER. I noticed the article says:

An attorney for Burnham & Co. said it did plan to ask for Mendes Gans representation, and thought the Dutch bank would be entitled to 1 or 2 directorships on the utility's 5-man board.

So that they are seeking that representation on the board.

Mr. GARRETT. So it appears.

Mr. RUSHER. How did you first learn of the purchases of the foreign syndicate?

Mr. GARRETT. This block of stock had been involved in our handling of Cenpuc's exemption application for over a year. Central Public Utilities Co., or Cenpuc, is still a registered holding company, but it has disposed of all of its domestic utilities. And, therefore, it at least meets the formal requirements for exemption under section 3 (a) (5) of the Holding Company Act, namely, that if a utility's subsidiaries are all foreign, it is a basis for exemption. The exemption cannot be granted, however, unless and except insofar as the Commission may find the exemption detrimental to the public interest or the interest of investors or consumers. In other words, the exemption is ultimately discretionary with the Commission, based upon the broad standards of the act, and is not automatic upon proof of meeting the formal requirements.

Now, Cenpuc has something of a problem because its exemption requires a variation, or an amendment, of an earlier order that it divest itself of an intermediate holding company. We were prepared to set that down for hearing before the Commission to see whether that amendment to the earlier order could be granted, and the exemption granted, when we discovered that a subsidiary of Equity Corp. had purchased a large block of the stock, some 27 percent of the voting stock. That injected a new element in the picture that caused us some concern because it imposed a substantial number of other holding companies over the Cenpuc picture, and also because it raised some thought that there might be a conflict of business purpose between Equity's holding of this stock and the taking advantage of a substantial tax loss which was the purpose of the ordinary stockholders of Cenpuc. We, therefore, had a series of conferences in which they attempted to work out a plan which would keep the Equity Corp. in the nonutility aspect of Cenpuc and it would spin off the foreign utility properties in a separate corporation. Those negotiations led nowhere and Equity finally decided to sell. They told us they were going to sell, and they told us they were going to sell to Burnham & Co. Naturally, we asked who was going to buy, and that led to the disclosure of a plan to sell through the Netherlands bank, the full name of which is given in the Times, referred to in its short



form as Mendes Gans, I believe. And Mendes Gans, in turn, was going to create a Dutch administrative office which would be a nominee or holder of the registered shares, and it would, in turn, issue against the registered shares, bearer certificates, which, in turn, would be listed on the Netherlands Exchange and traded in the ordinary course as bearer shares, creating a right to a specified number of shares which, in fact, would be held by this administrative office or nominee.

The plan indicated a sufficient dispersion of the stock as to actual Equity ownership and control of the vote, so that it seemed to us it would not create a new holding company.

You understand that the holding of 10 percent or more of the voting securities of a utility, or of a utility holding company, creates a presumptive holding company under the Public Utility Holding Company Act.

But we do not regard, by rule, a nominal holder or street name holder in our own terminology who may hold more than 10 percent but without the power to vote or control the use of the stock as a holding company. This appeared to be within that last category.

What you read in the newspaper suggests that perhaps that was not the correct picture as it turned out.

Mr. RUSHER. Addressing yourself then specifically to the question: When you learned, you learned about it actually before the transaction was consummated?

Mr. GARRETT. That it would be sold abroad; yes.

Mr. RUSHER. So there was no need, in this particular case, for notice to come to you from the American management of the company of the invasion of foreign interests here?

Mr. GARRETT. No.

Mr. RUSHER. Was any report made by the Commission to any other agency of the Government with respect to this purchase?

Mr. GARRETT. We did not even report this to the Commission proper, to tell you the truth, at that time. It was a staff decision not to recommend any action. And I am confident that no report went from the Commission to anybody else.

Senator HRUSKA. Would the fact that now they are apparently going to seek representation on the Board, affect that decision?

Mr. GARRETT. Affect the decision as to whether to notify some other agency of the Government? Well, to tell you the truth, that had not occurred to me.

Mr. ARMSTRONG. I am not, of course, in any position to say where the Commission will go with this, because it will be coming before us on the exemption application under the section of the statute to which Mr. Garrett referred. But I am not really too concerned about the case from any security standpoint, because here is a company which, in compliance with section 11 provision of the Holding Company Act, has, in fact, divested itself of its domestic utility properties. The only utility properties it owns are outside this country.

Mr. RUSHER. We were merely using this illustratively because it was the only one we had. In other words, Is there a procedure for reporting such matters? And I take it, from what you say, there is no regular procedure for reporting it to the other agencies that Mr. Woodside mentioned, so that it is a matter in each case, I gather from what you said, Mr. Armstrong, of the Commission deciding whether

or not there is a security angle—or potentially one—which should be reported. Would that be correct?

Mr. ARMSTRONG. I think that is correct. But I believe the incidents are very low, if there have been any incidents. What would you say to that, Mr. Woodside? Have we reported any number of cases to other agencies for security reasons?

Mr. WOODSIDE. Well, let's say that we report a great many cases to other Government agencies, but not necessarily for the reason that we recognize a security problem. Although many of the cases that are referred to other agencies, no doubt, do. But it is standard operating procedure in the handling of the work of the Division with which I am connected. In other words, in the processing of registration statements for new financing in this country and the annual reports and periodical reports and proxy material, we, as matter of course, are in frequent communication with the Treasury, State, Defense Department—

Mr. ARMSTRONG. Justice—

Mr. WOODSIDE. Department of Justice, Federal Trade Commission, Department of Commerce, Bureau of Standards, Atomic Energy Commission, because we seek to employ all the facilities of Government in the discharge of our obligations under the disclosure requirements of the statutes. And they frequently can help us.

So that in the ordinary course of processing, a great deal of our work, as to these cases, as they come along, are brought to the attention of other Government agencies.

Senator HRUSKA. The occasion for such is dictated by the circumstances of the case and the developments as they occur?

Mr. ARMSTRONG. That is right, Senator Hruska.

Senator Hruska, before you close, I would like to offer a few additional pages of our annual report for the record, in areas which I think would be helpful to the subcommittee.

Senator HRUSKA. Fine, they will be inserted. Will you please mark them?

Mr. ARMSTRONG. I can give you page numbers and mark them, and give them to the reporter.

Senator HRUSKA. That is fine, I think they will be very helpful.

Mr. ARMSTRONG. Thank you, sir.

(The pages of the annual report referred to were marked "Exhibits Nos. 461, 461-A, 461-B, and 461-C" and are as follows:)

#### EXHIBIT No. 461

#### FOREWORD

The 22d Annual Report of the Securities and Exchange Commission to the Congress for the fiscal year July 1, 1955, to June 30, 1956 (herein called "1956"), describes the work of the Commission during the year in discharging its duties under the Federal securities laws which it was established by the Congress to administer. These include supervision of the registration of securities for sale in interstate commerce to the public, the surveillance of the interstate securities markets, regulation of the activities of brokers and dealers and investment advisers, the regulation of public utility holding company systems and investment companies, and litigation in enforcement of the Federal securities laws in the courts.

The year 1956 has been one of great activity in the regulation and supervision of securities markets by the Commission. The increasing responsibility of the Commission was brought about by the sustained high level of economic activity in the country, and the accompanying stepped-up activity in the Nation's capital markets.

In 1956 new issues of securities registered for public sale totaled \$13.1 billion, the largest amount in the Commission's history and more than \$2 billion in excess of the amount registered in the preceding year. The value of securities traded on stock exchanges during 1956 was \$38 billion, more than double the figure of fiscal 1953. Stockholders in publicly owned American corporations are estimated by the New York Stock Exchange to include about 8.5 million domestic individuals, 2 million more than 5 years ago. About 4,600 brokers and dealers were registered with the Commission as compared with 4,100 3 years ago.

Enforcement activities such as broker-dealer inspections and investigations of fraud and market manipulations have been greatly expanded to meet current needs occasioned by abuses incident to the marketing of certain types of securities of speculative quality. The Commission's enforcement program, to assure fair disclosure of material facts in connection with the marketing of corporate securities and for the prevention, detection and punishment of fraud in the sale of securities, has been intensively pursued in the interest of the investing public. Administrative and legal actions taken under the Enforcement Program have exceeded those of any prior year. These include 100 suspensions of offerings for which the small issues exemption was claimed, 8 stop orders of securities for which registration statements were filed, 45 revocation and denials proceedings against broker-dealers and investment advisers; 33 injunctive and 1 subpoena enforcement actions and 20 criminal referrals to the Department of Justice.

The Commission has continued its program of strengthening and simplifying its rules, forms and procedures with a view to the more effective dissemination of information to investors, the prevention, detection and punishment of fraud and the elimination of unnecessary complexities and duplications. An intensive study of the problems of small business in marketing securities, particularly for equity capital, was conducted by the Commission in 1956, and shortly after the close of the year our exemptive regulations for issues of \$300,000 or less were revised and streamlined so as to provide better protection to the investing public without unnecessary or burdensome compliance requirements on small business enterprises seeking access to the interstate capital markets. There was also established shortly thereafter a Branch of Small Issues in our Division of Corporation Finance in Washington, D. C., to coordinate and facilitate the handling in our nine regional offices throughout the country of the filings for small issues.

During the year, the Commission and its staff have appeared before committees of the Congress on many occasions in connection with proposed legislation dealing with the Commission's work and other subjects of interest to the Congress. Various legislative proposals considered are discussed in this report. This work of the Commission in assisting the Congress is of great importance to the public interest.

To meet the greatly increased workload in accordance with the recommendation contained in the President's Budget, the Congress granted the Commission an appropriation for an average employment of about 730, in 1956, which represented a small increase from 1955 and, most significant, an end of successive annual curtailments of staff from a high of over 1,700 in 1942 to an all-time low of 666 on June 30, 1955. For 1957, the Congress, recognizing this Commission's request in light of the vastly expanded economy and capital markets, appropriated funds for an average employment of 794.

Statutory fees for registration of new issues of securities and trading in issues registered for trading on stock exchanges are imposed by the Federal securities laws. These fees are not available to the Commission for expenditure and are covered into the Treasury as miscellaneous receipts. These fees, however, amounted to 39 percent of the 1956 appropriation for the Commission and therefore represent a reduction in the cost of the Commission which must be provided by the general taxpayer.

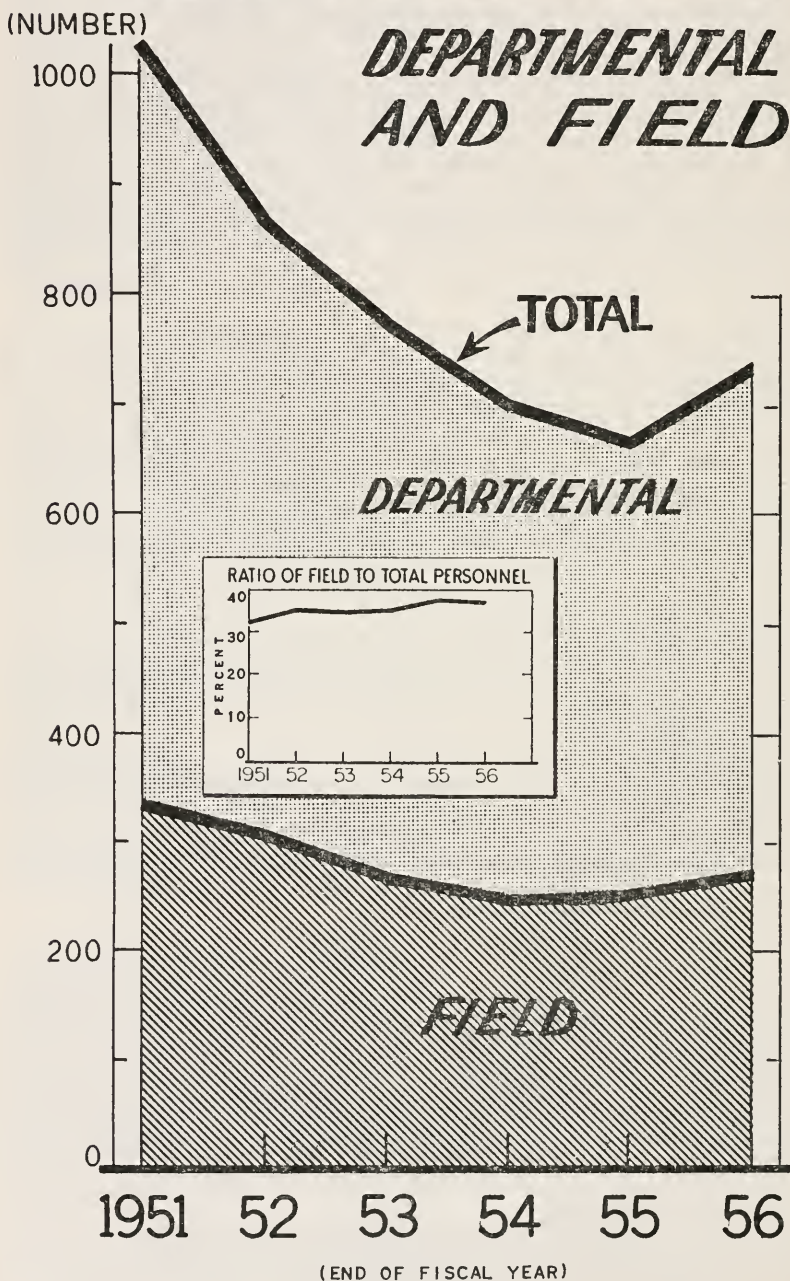
During 1956 the Commission has rendered an effective administration at a minimum cost. However, constantly increasing regulatory and supervisory responsibility brought about by the great activity in the securities markets makes it essential that the Congress provide funds for this Commission adequately to fulfill its statutory function of protection of the investor, the consumer and the public in accordance with the acts of Congress which it has the responsibility to administer.

The work of the Securities and Exchange Commission in protecting the investor, the consumer and the public according to the standards established by the Congress in the Federal securities laws is vitally important to the maintenance of confidence in the securities markets which is essential to the preservation of the free enterprise system.



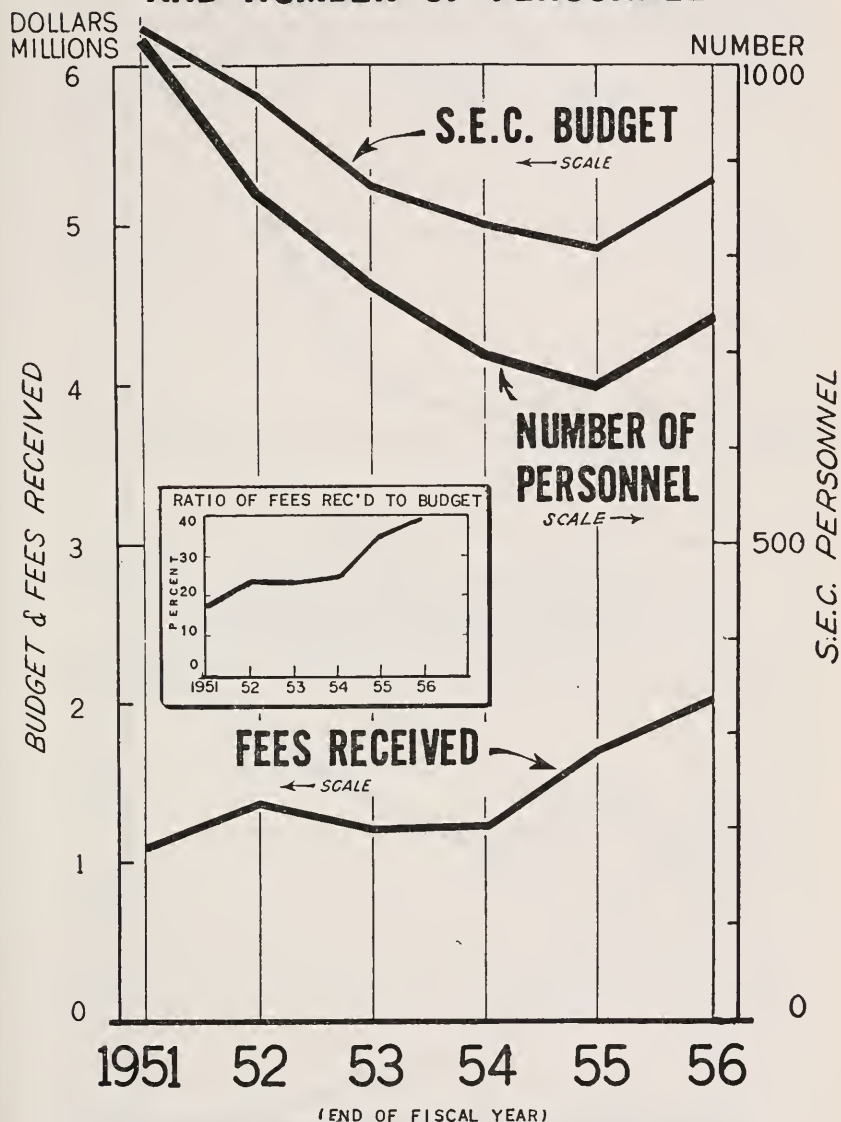
The charts which follow show in graphic form various aspects of the activities and personnel of the Commission relating to its increased workload.

# S.E.C. PERSONNEL

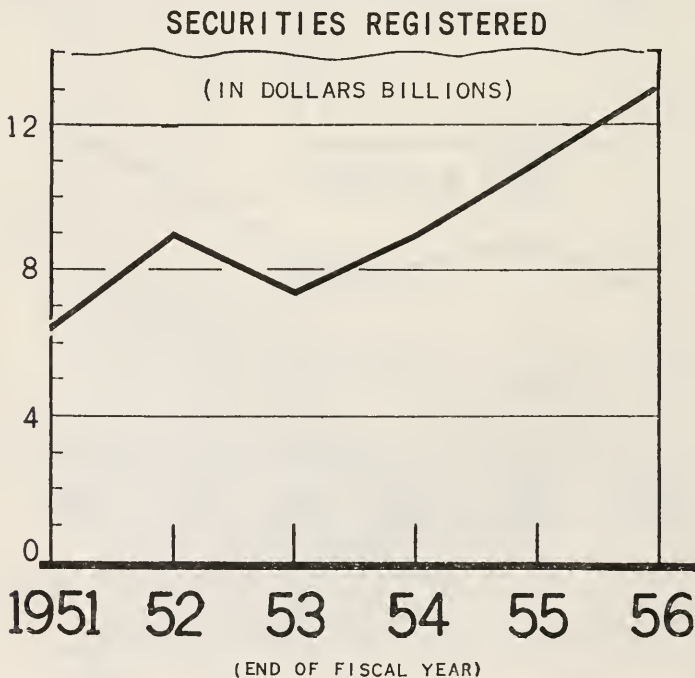
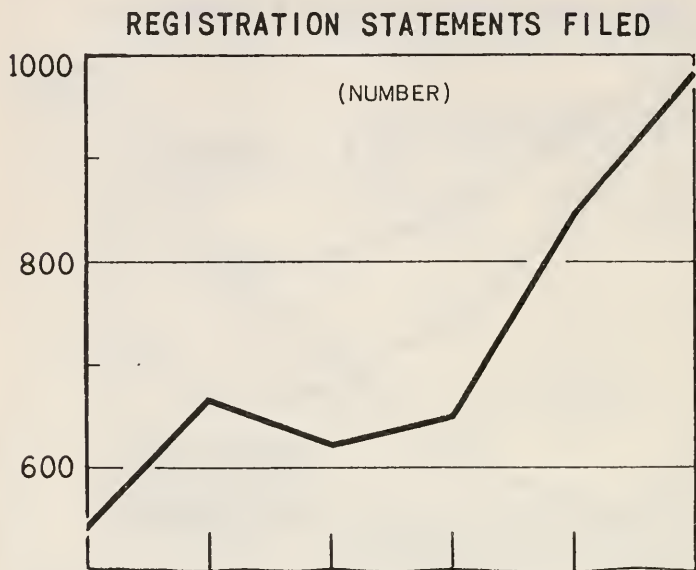




# S.E.C. BUDGET, FEES RECEIVED, AND NUMBER OF PERSONNEL

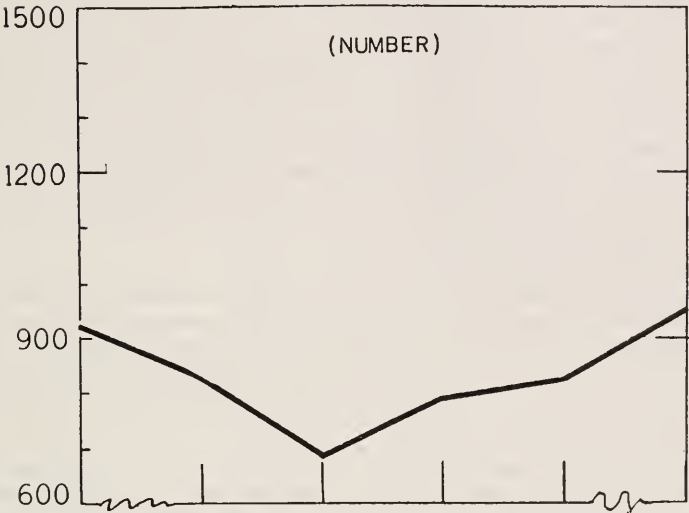


# SECURITIES REGISTERED WITH S.E.C.

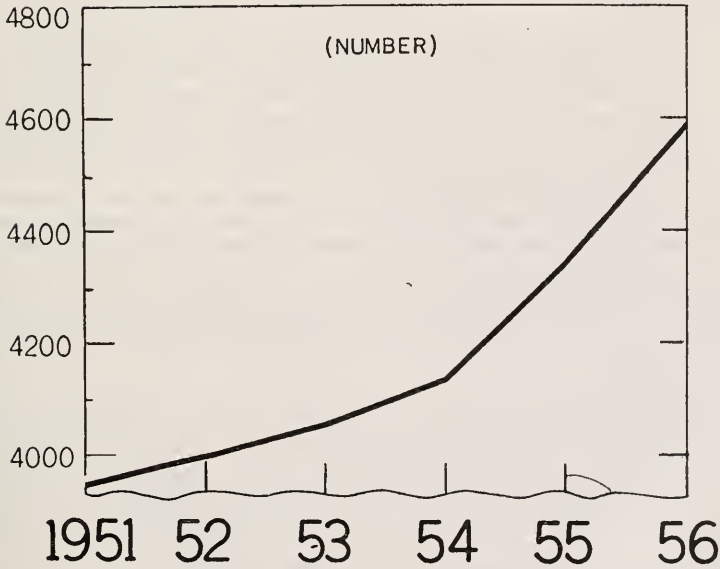


# S.E.C. BROKER-DEALER REGISTRATION AND INSPECTION

BROKER-DEALER INSPECTIONS



REGISTERED BROKER-DEALERS



1951 52 53 54 55 56

(END OF FISCAL YEAR)

## EXHIBIT No. 461-A

## PART I

## ENFORCEMENT PROGRAM

The most important aspect of the Commission's activities during 1956 has been its Enforcement Program. The aim of the Enforcement Program is to assure fair disclosure of all material facts about corporations offering securities to the public in interstate commerce and to prevent fraud, deceit and manipulation in the sale, purchase and trading of securities, and thus to provide the protection to the public investors which is the objective of the Congress expressed in the Federal securities laws. The Enforcement Program, under the day-to-day direction of the Commission, has been carried out by the Commission's operating divisions and offices in Washington, and by its 14 regional and branch offices in principal cities throughout the Nation. The necessity for an increasingly vigorous Enforcement Program has arisen from the tremendous economic activity of the country, which has been reflected in the most active capital markets in our Nation's history. Enforcement problems confronted by the Commission during the relative economic stagnation of the 1930's, the World War II period of market quiescence, and the postwar recovery have been dwarfed by the problems confronting the Commission in the past 2 years of dynamic economic growth and the accompanying requirements for capital.

At no time in the Commission's experience have activities and prices in the securities markets reached such highs. This upsurge has taken place in a relatively short period of time. For example, the dollar amount of securities registered under the Securities Act of 1933 increased by 75 percent from \$7.5 billion in the comparatively recent fiscal year 1953 to \$13.1 billion in fiscal 1956. During the 1930's, the average dollar amount of securities registered was about \$2.5 billion, and in some years was below \$1 billion. In the postwar years from 1945 to 1950, it was \$4.5 billion a year on the average.

Of the \$400 billion gross national product annual rate figure, over \$60 billion is applied for capital purposes of industry, that is to say, to provide plant facilities, tools and working capital needed by American industry. Much of the \$60 billion amount is supplied from internal sources, such as depreciation accruals and retained earnings. The capital formation process supplies the balance estimated at \$7 to \$8 billion annually through investments in the capital markets by the American people.

The work of the Commission in sustaining the investors' confidence in the integrity of the capital markets must take into account conditions which if permitted to exist can only result, ultimately, in the destruction of investor confidence and the thwarting of the Congressional objectives set forth in the securities laws. Our free enterprise system will be damaged if these conditions grow and are not stamped out. A few of these problems with which the Commission has been faced and our efforts to cope with them are deserving of consideration by the Congress and the public generally.

1. *The problem of new, inexperienced and, in some cases, dishonest brokers and dealers registering under the Exchange Act.* The activity in the capital markets has attracted many new brokers and dealers to the securities business. The number of registered broker-dealers increased from 3,924 at June 30, 1949, to 4,591 at June 30, 1956. Many of the new broker-dealers are inexperienced and unfamiliar with the obligations owed to their customers. Some have been drawn into the business in the hope of a quick profit rather than the establishment of a sound business reputation built painstakingly upon just and equitable principles of trade.

The aggregate market value of all stock on all stock exchanges, which never exceeded \$100 billion before 1946, except briefly in 1929, increased from \$111 billion at December 31, 1950, to over \$250 billion at June 30, 1956. The Dow Jones Industrial average of stock prices on the New York Stock Exchange reached an all-time high of 521.05 on April 6, 1956. During the years 1933 to 1949 it never exceeded 220. The value of the gross national product broke through the \$400 billion annual rate figure in 1956 as compared with \$340 billion in 1952.

The dollar value of securities which changed hands on the New York Stock Exchange rose to \$32 billion in fiscal 1956, more than double the comparable figures of fiscal 1953, and like increases were registered on the regional exchanges and are believed to have also occurred in the over-the-counter market.



Attending this rapid expansion has been a favorable climate for the marketing of new securities issues, including securities of speculative quality, a marked increase in the number of stockholders (estimated by the New York Stock Exchange to include  $8\frac{1}{2}$  million domestic individuals), including many inexperienced investors.

Capital markets such as these, which have no precedent in the Commission's history, have been accompanied by adverse conditions which have required intensified enforcement activities by the Commission so to assure to the investing public the protection which the Congress intended should be provided by the securities acts. A number a new brokers and dealers either lack adequate financial resources or speculate unwisely, thus getting into financial difficulties which threaten the safety of customers' funds or securities entrusted to them. The Commission has no authority under the Exchange Act to bar a person from registration (absent proof of earlier violations of law) nor is there any financial or educational requirement. Expanded and more frequent broker-dealer inspections, prompt investigations of irregularities discovered in inspections or complaints received from the public, and prompt and vigorous legal action in the case of violations have been the Commission's program for the protection of investing customers.

2. *The problem of "boiler rooms."* The term "boiler room" is used to refer to a securities sales organization employing high-pressure, fraudulent, and deceptive sales techniques to "tout" highly speculative securities over the telephone. An increasing number of securities of speculative quality have been sold to unsophisticated investors lured by representations of large profits under present market conditions and willing to buy securities on the basis of representations made over the long distance telephone by complete strangers. Prevention and detection of fraud in such sales has been a particularly difficult task necessitating the careful collection of evidence from widely scattered sources.

The Commission's program has been threefold—to bring broker-dealer revocation proceedings against broker-dealers found to be selling or purchasing securities by misrepresentation or fraud, to bring injunction actions in the Federal courts to prevent such transactions, and to prevent broker-dealers from doing business in violation of any of the Exchange Act protective provisions or the Commission's rules, such as the net capital rule, the rule against improper extension of credit (regulation T) and the like, and, where the violation is wilful, reference of the case to the Department of Justice for criminal prosecution.

One particularly difficult aspect of the "boiler room" problem is the gullibility of the public. The Commission has had a public information program under which Commissioners have talked at public gatherings, particularly to professional and civic groups, to the press and on radio and television, seeking to acquaint the public with the dangers of stock transactions with unknown persons calling on the long distance phone and holding out promises of riches if the person called will only buy the stock. The public is asked to tell the person calling to put a letter in the mail about the securities (this often ends the call because use of the mails gives Federal jurisdiction under the Exchange Act and the Mail Fraud Act) or to put the official prospectus or offering circular (which in the case of a new issue is required to be filed with, and is examined by, the Commission) in the mail.

The press, radio and television news media have rendered great service to the American people by helping to get this message across. But, fundamentally, a government agency can do just so much in protecting the public, and in the final analysis the American people must learn to use ordinary care and prudence in investing their money. The Commission needs the help of the investing public which should report to us transactions in which it is believed misrepresentation and fraud have occurred and the public has been bilked. But the public must also learn not to buy the proverbial "gold brick." The tragedy from the standpoint of the public interest is that the widow, the wage earner, the person of small income is often the victim of the "boiler room" salesman. The Commission will welcome every help from the public in reporting to us fraudulent transactions and in using commonsense in their securities transactions.

3. *Sales of unregistered securities based on claimed exemptions.* It appears that a substantial but undetermined number of securities have been sold in violation of the registration, prospectus, and antifraud provisions of the Securities Act pursuant to claimed exemptions which, in fact, were not available. We believe that these sales have been made in the main under claims of exemption pursuant to the so-called private offering exemption<sup>1</sup> and the intrastate

<sup>1</sup> Securities Act of 1933, sec. 4 (1)—second clause.

exemption.<sup>2</sup> In most of these cases the Commission has no means to discover facts showing the unavailability of a particular exemption until it receives, months after sales have been made, reports or complaints from unwary public investors who have been taken for substantial sums. Further complicating the Commission's problems in this area has been the fact that an increasingly large number of securities claimed to have been issued pursuant to these exemptions have been transferred to United States citizens through Canadian, Swiss, Lichtenstein, and other foreign financial institutions, under foreign laws which preclude the Commission from tracing the transactions in which the securities have been publicly sold or the availability or unavailability of the claimed exemption. The Commission has increased its efforts to make factual discoveries of sales made without registration at the earliest opportunity in order to determine the availability or unavailability of these exemptions and thus to take legal action to afford the protection to public investors contemplated by the Securities Act.

4. *The problem of illegal sales from Canada.* The Commission has been concerned about the illegal sale of issues in the securities markets of the United States by issuers and broker-dealers located in Canada. These transactions have appeared to reach public investors in the United States as a result of primary distributions effected on Canadian securities exchanges or through Canadian brokers and dealers. Although it has not been possible, in many instances, to directly reach Canadian issuers or broker-dealers, the Commission has attempted to review more closely the activities of broker-dealer firms in this country suspected of participating in the illegal marketing of Canadian securities or of American securities sold through Canadian sources in order to protect United States public investors more effectively. Efforts are also being made through appropriate diplomatic channels to correct the virtual nullification of the Extradition Treaty between the United States and Canada which, as amended in 1952, provides for the extradition of persons indicted for securities frauds perpetrated in Canada upon persons in the United States. This resulted from a decision of Canadian Extradition judge in 1954,<sup>3</sup> in the first case under the 1952 treaty amendment, denying extradition though conceding the fraud. During the year, continued excellent cooperation on law enforcement matters by Canadian officials, both Federal and Provincial, aided greatly our efforts to detect, thwart and proceed against fraudulent securities sales.

5. *The problem of the "front money" racket.* Under the Commission's exemptive regulation for new issues not in excess of \$300,000 in aggregate public offering price (Regulation A) and sometimes under registration, it has been discovered that "rings" have developed through which groups of promoters, dealers, attorneys, and engineers collaborate in the creation of a series of companies primarily employed to "manufacture" securities for public sale in the guise of legitimate promotions. Often these facts have not been developed or discovered until after public investors have bought securities which have little or no actual value. These various transactions frequently have been carefully timed so that it is difficult to relate one issue with another even though a particular issue may have been part of a scheme of the character mentioned. Under the revised regulation A, the Commission now requires disclosure of the names of such individuals in connection with the filing of Form 1-A which will greatly assist its enforcement program.

6. *Evasion of the registration requirements through the "no sale" theory.* By Commission Rule No. 133, certain types of corporate mergers, consolidation, reclassifications of securities and acquisition of assets of another person in conformity with statutory provisions of the state of incorporation, have been deemed not to constitute a "sale" of securities issued in the transactions for purposes of section 5 of the Securities Act. The rule, in effect, exempts such issues from the requirement of registration under that Act. The rule has been used by numerous issuers, domestic and foreign, to distribute securities without registration. As in the case of the "private offering" and "intrastate" exemptions, many transactions ostensibly exempted under the rule, in fact involve violations of the registration provisions. The Commission recently released a notice of a proposed revision of the rule which is designed to make exemptions unavailable in the cases now exempted under it.<sup>4</sup> If adoption of the proposal results, it will

<sup>2</sup> Securities Act of 1933, sec. 3 (a) (11).

<sup>3</sup> See 20th Annual Report, p. 103; 21st Annual Report, p. 113.

<sup>4</sup> Securities Act Release 3698 (October 2, 1956).

involve a substantial increase in the number of registration statements filed under the Securities Act and in the annual and periodic reports filed under the Securities Exchange Act.

7. *The problem of promotional stocks.* In addition to the problems created by the sale of promotional uranium stocks, the Commission has been concerned with the sale of new insurance company securities in both exempt and registered issues. Many of these new insurance company ventures are located in the South Central, Southwestern, and Southeastern parts of the country. A large number of these issues have given the appearance of involving abuses or probable violations of either the Securities Act or of the Securities Exchange Act, necessitating thorough investigation.

8. *Stop order and suspension proceedings for new issues.* For the protection of public investors, the Commission has instituted a substantially increased number of stop-order proceedings and suspension orders. Each of these has been preceded by an investigation, and, in many instances, has required a formal administrative hearing. These actions have involved the establishment of facts and the obtaining of testimony. Securities, which, if sold, would have defrauded the public, have thus been kept off the market.

The effectiveness of the Enforcement Program depends in large measure upon a staff, both in the headquarters and regional offices, adequate to discharge the exacting duties which this program places upon it, and upon the availability of travel funds necessary to give this personnel the mobility necessary to cover the large geographical areas in which the investigative work has to be done. Further, the Enforcement Program has been related to the complex and ever-changing pattern of the securities markets and the securities industry. The facts concerning the business, property, and financing of a security issuer must be ascertained and related to the representations made to investors. Investors must be identified and interviewed. Books and records of brokers, dealers, issuers and others must be examined and analyzed. Frequently, securities must be traced, often through intricate channels, to ascertain whether they have been offered by an issuer or underwriter in violation of the registration and prospectus requirements of the acts. The information thus obtained has had to be then developed in a form which would permit its introduction in evidence in legal proceedings, which is not a simple matter, where complex legal and economic facts and theories are concerned.

Violations, however, have often been carefully concealed and, under present conditions, frequently have involved elaborate and shrewdly conceived schemes carried out on a large scale. Such activities could be properly dealt with only by assigning a competent team of attorneys, accountants, analysts, and investigators to concentrate on the particular case until it has been completed.

Careful and painstaking work usually over a period of many months has preceded formal enforcement action by the Commission. In some cases the work of the Commission has led to some form of restitution to public investors; in others, the violations have been discovered in time to prevent serious injury to the public; and in others, the violators have been forced out of business or prosecuted.

As a further implementation of the Enforcement Program, and as a means of giving greater protection to public investors, the Commission has undertaken through the media of public speeches made to various civic groups and other organizations, and through adequate coverage in the press and on radio and television, to warn the American people against hasty investments in companies whose financial and background facts have not been disclosed. Such warnings inevitably have had a great deterrent effect and have caused companies which are seeking to raise money in the capital markets to comply with the registration requirements by making the disclosures so necessary to informed investment by the public.

If the confidence and faith of the American public in the capital markets is to be maintained so that the essential supply of capital can be continued at the high rate of demand anticipated by present estimates of industrial production with the resultant high standard of living, it is essential that this agency continue its Enforcement Program by supervising the capital markets in accordance with the standards established by the Congress in the Federal securities laws.



## EXHIBIT No. 461-B

## PERSONNEL AND FISCAL

The personnel of the Commission as of June 30, 1956, compared with June 30, 1955, consisted of the following:

	June 30, 1956		June 30, 1955	
Commissioners.....		5		4
Staff:				
Headquarters office.....	458		411	
Regional offices.....	271	729	251	662
Total.....		734		666

The table on the following page shows the Budget Estimates of the Commission, the recommendations of the President, the appropriations actions of the House of Representatives, the Senate and the House-Senate Conferees and the appropriations (including supplementary appropriations for statutory pay increases) made for the Commission by the Congress for the fiscal years 1949-1956.





## EXHIBIT No. 461-C

## SECTION OF SECURITIES VIOLATIONS

A section of Securities Violations is operated by the Division of Trading and Exchanges of the Commission as a part of its enforcement program and to provide a further means of detecting and preventing fraud in securities transactions. The Securities Violations Section maintains files which provide a clearing house for information concerning persons who have been charged with violations of various Federal and State securities statutes. Considerable information is also available concerning violators who are resident in the provinces of Canada. The specialized information in these files is kept current through the cooperation of the United States Post Office Department, the Federal Bureau of Investigation, parole and probation officials, State securities authorities, Federal and State prosecuting attorneys, police officers, Better Business Bureaus, and chambers of commerce. At the end of the fiscal year these records contained information concerning 95,664 persons against whom Federal or State action had been taken in connection with securities violations. In keeping these records current there were added during 1956 information concerning 4,798 persons, including 1,695 concerning persons not previously identified therein.

The Securities Violation Section issued and distributed quarterly a Securities Violations Bulletin containing information received during the period concerning violators showing new charges and developments in pending cases. The bulletin includes a "wanted" section in which are listed the names and references to bulletins containing descriptive information as to persons wanted on securities violations charges. The bulletin is distributed to a limited number of cooperating law enforcement officials in the United States and Canada.

Extensive use is made of the information available in these records by regulatory and law enforcing officials. During the past year the Commission received 3,204 "securities violations" letters or reports and dispatched 1,823 communications to cooperating agencies.

Mr. ARMSTRONG. I also have a comparative table of certain enforcement actions for the fiscal years 1955, 1956, and 9 months ending March 31, 1957, which will be of interest to you.

Senator HRUSKA. That will also be made a part of the record.

Mr. ARMSTRONG. Thank you, sir.

(The comparative table referred to was marked "Exhibit No. 462" and is as follows:)

## EXHIBIT No. 462

## SECURITIES AND EXCHANGE COMMISSION

*Comparative tables of certain enforcement actions, fiscal years 1955 and 1956, and 9 months ended Mar. 31, 1957*

Type of action	Fiscal 1955	Fiscal 1956	9 months ended Mar. 31, 1957
Injunctive actions authorized.....	26	33	65
Administrative proceedings to deny or revoke registrations of brokers and dealers instituted.....	1 62	1 45	54
Cases referred to Department of Justice for criminal prosecution.....	8	17	18
Number of possible defendants named in such references.....	12	43	100
Investigations of violations of the Securities Acts:			
Pending at beginning of period.....	725	644	813
Opened during period.....	392	362	392
Subtotal.....	1, 117	1, 006	1, 205
Closed during period.....	2 473	193	209
Pending at end of period.....	644	813	996
Broker-dealers registered at end of period.....	4, 334	4, 591	4, 699

<sup>1</sup> This includes a substantial number of proceedings instituted in the last quarter of the year because of failure to file financial reports during the 3d quarter of the year as required by regulation.

<sup>2</sup> This includes 75 dormant Canadian cases and a substantial number of others closed to clear the records.

Mr. ARMSTRONG. And Mr. Meeker, our General Counsel, has another statement that he would like to offer.

Mr. MEEKER. I have a statement, Mr. Chairman, which summarizes in general language the state of our negotiations in an effort to get information from the Swiss through diplomatic channels, and the exploration, if possible, of treaty arrangements, and I would like to offer this for the record.

Senator HRUSKA. The statement will be received.

(The statement referred to follows:)

STATEMENT OF THOMAS G. MEEKER, GENERAL COUNSEL, SEC, BEFORE THE SENATE  
INTERNAL SECURITY SUBCOMMITTEE WITH RESPECT TO THE OBTAINING OF  
INFORMATION FROM FOREIGN SOURCES

Recently, as the subcommittee is aware, the Commission has encountered difficulties in completing investigations of certain transactions because they were effected through Swiss banks. Under the Swiss Banking Act (art. 47) and the Swiss Espionage Act (art. 273 of the penal code) it is a criminal offense to disclose banking or other business secrets. In view of these restrictions, the banks of Switzerland originally took the position that they could not divulge the identity of parties involved in the transactions in which the Commission was interested.

In these situations we have made direct approaches to the Swiss banks and have been utilizing diplomatic channels in an effort to obtain full disclosure of the transactions under investigation. We have been and still are negotiating with the Swiss banks in an effort to obtain the information concerning the transactions in which we are interested. We have also discussed in some detail our particular problems with a representative of the Swiss Government. It is our understanding that the Swiss are very much concerned over the unfavorable publicity which they have been receiving. They have emphasized that the Swiss Banking Secrecy Code and the drastic economic espionage laws were not designed for the purpose of assisting the perpetration of criminal frauds or other violations in the United States. The secrecy laws, they point out, had their genesis in events and circumstances occurring during the rise of German fascism and other "isms," and when such secrecy was important to protect the lives and fortunes of individuals, who were the victims of such political movements. The traditional Swiss neutrality placed Swiss institutions in an excellent position to offer these safeguards. Accordingly, they appear to be seriously concerned over the present allegations concerning the use of their facilities for possible crimes or frauds upon the American public.

It appears that the banks are most desirous of working out some arrangements so that information which may be needed by the Commission to uncover fraud or other illegal activities against American investors may be made available. However, the secrecy provision presents a problem that cannot be easily resolved.

Recently a conference was held between counsel for the Subcommittee on Securities of the Senate Banking and Currency Committee, representatives of the Commission and the State Department with a representative of the Swiss Government. The Swiss representative was fully briefed as to the troublesome areas in which the Commission was concerned. Tentative suggestions were advanced, including the possibility of a treaty or executive or some other agreement which would permit the Swiss to make information available and at the same time protect their own position.

Our impression is that the Swiss are concerned, if not alarmed, about the present situation and we are hopeful that they will make a conscientious endeavor to work out a reasonable solution.

This problem with the Swiss is not unique. To the extent that foreign parties are not amenable to our legal process, the problems of compliance and enforcement exist in respect of all foreign institutions generally.

Mr. RUSHER. May I to clarify one point ask Mr. Meeker a question?

Mr. Meeker, I take it when you speak of treaties, you are thinking of possible reciprocal arrangements for the exchange of information which would let us know more, let us say, in the particular case of Switzerland, is that correct?

Mr. MEEKER. I have in mind—the only country which we are considering, and which this memo refers to, is Switzerland. It is only with respect to Switzerland that we are having any discussion.

Mr. RUSHER. And the distinction between that and the statute, would be that the treaty, of course, would cover only Switzerland, whereas the statute would apply to any country which adopted similar laws——

Mr. MEEKER. Yes, I suppose so. I am not sure that we would get more out of the statute, though, than we might get out of the treaty.

Mr. RUSHER. The only reason I asked, I heard mention of Uruguay, where these similar numbered accounts are permitted——

Mr. MEEKER. We are going to look into the laws of Uruguay, as I promised the committee yesterday. I do not know anything about them now, so I cannot answer as to that.

Senator HRUSKA. Is there anything further, Mr. Armstrong, that you would like to comment on before we close the meeting?

Mr. ARMSTRONG. I would like to say this on behalf of the Commission and the staff, Senator Hruska, that we appreciate the courtesy with which the subcommittee has conducted the hearings in the past 2 days. We are delighted to aid and assist you in any way we can to the extent of our powers to work with your staff, and please let us know when we can be of service to you.

Senator HRUSKA. Thank you, Mr. Armstrong. I want to thank you and the members of your staff for appearing before the subcommittee.

The meeting is adjourned.

(Whereupon, at 12:05 p. m., the meeting was adjourned.)



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SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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HEARINGS

BEFORE THE

SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

FIRST SESSION

ON

SCOPE OF SOVIET ACTIVITY IN THE  
UNITED STATES

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MAY 8 AND 9, 1957

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**PART 60**

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Printed for the use of the Committee on the Judiciary



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SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION OF THE INTERNAL SECURITY  
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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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WEDNESDAY, MAY 8, 1957

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY ACT  
AND OTHER INTERNAL SECURITY LAWS,  
OF THE COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to call, at 10:35 a. m., in room 457, Senate Office Building, Senator Roman L. Hruska presiding.

Also present: Robert Morris, chief counsel; William Rusher, associate counsel; Benjamin Mandel, research director and Frank Schroeder, chief investigator.

Senator HRUSKA. The committee will come to order.

Mr. MORRIS. This morning, Senator, we have continuation of the hearings that the subcommittee engaged in last November 21, 1956. That was immediately prior to the subcommittee's trip to Honolulu, where extensive testimony was taken about the operation of the ILWU, the International Longshoremen's and Warehousemen's Union.

On November 21, 1956, Mr. E. L. Hageman, national president of the Commercial Telegraphers Union, Western Union division, AFL-CIO, testified. He testified about a situation which has been described by the Internal Security Subcommittee in the past as a threat to the internal security of the United States.

This morning, Senator, we have two witnesses prepared to testify. The first witness is Mr. Robert L. Applegate, Staff Director of the Industrial Security Programs Division, Office of the Secretary of Defense.

I suggest, Senator, having had a previous session with both witnesses, that the hearing might be best developed by starting with Mr. Applegate, who will give the broad general policy. Then we will ask Mr. Lenahan to testify as to the situation in New York, that he be the second witness, and Mr. Applegate be called upon to give amplification on testimony of Mr. Lenahan.

Senator HRUSKA. We will do it that way, then.

Will you be sworn, Mr. Applegate?

Do you solemnly swear that the testimony you will give before this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. APPLGATE. I do.

## TESTIMONY OF ROBERT L. APPLGATE, ALEXANDRIA, VA.

Mr. MORRIS. What is your name, sir?

Mr. APPLGATE. Robert Lee Applegate.

Mr. MORRIS. What is your address?

Mr. APPLGATE. 2916 Argyle Drive, Alexandria, Va.

Mr. MORRIS. What is your position in the Government, Mr. Applegate?

Mr. APPLGATE. I am Staff Director of Industrial Security Programs Division, Office of Personnel Security Policy, Assistant Secretary of Defense for Manpower Personnel Reserve in OSD—Office of Secretary of Defense.

Mr. MORRIS. Do you have a statement to make with regard to your testimony?

Mr. APPLGATE. Yes; I do. Shall I proceed?

Mr. MORRIS. Yes, please.

Mr. APPLGATE. Mr. Chairman, I am delighted to be here and to be of any assistance I can to this committee.

At the outset, I would like to repeat a statement made before this committee by Secretary Wilber M. Brucker on April 29, 1955, in connection with the proposed Defense Facilities Protection Act, which was then under active consideration:

The employment of known or potential subversives in facilities vital to the defense effort has long been a matter of deep concern to the Department of Defense. As matters now stand, the legal authority of the Department of Defense is limited to the protection of classified information or material in the possession of the contractors of the Department of Defense and, based on this authority, access to such classified information or material is controlled by denying access to persons who are determined, under appropriate rules and regulations, to be security risks.

Today, 2 years later, the situation described by Secretary Brucker remains unchanged. While the Secretary was speaking of the large number of facilities of importance to the Department of Defense, covering a wide range of activities, it is my understanding that the committee this morning wishes to fix its attention upon the security conditions in certain communication facilities which may be considered vital to the defense effort.

Obviously the entire communication system of this country plays an important part in our defense effort, a part which extends far and beyond the immediate and direct needs of the military departments. There are, however, certain facilities which, although serving the world community as a whole, perform important direct services for the military departments.

Any loss or disruption of such services under emergency conditions by sabotage or other cause, or any compromise of classified information in these facilities, could have serious consequences. Such a possibility causes us grave concern when these services bear directly on the transmission of our military messages, either coded or uncoded, which, of necessity, must be transmitted speedily, not only throughout the United States but to many points across the world.

Where classified information is involved under these conditions, its protection requires that we make every effort to be sure the communication company and each employee having access to such information is trustworthy. The company and its employees and field personnel of the three military departments are directed to follow carefully pre-



pared procedures and regulations, including those to meet unusual or emergency situations. This is strengthened further by frequent inspections and reports.

I might note here that the Department of Defense has always received splendid compliance from the many communication companies involved and their employees, in handling and protecting our military secrets.

Up to this time we have been unable to satisfactorily meet under existing legislation all the security problems which arise in this complex field. This is best illustrated in the facility where we may or may not have classified information but which, because of the nature of the service rendered by the facility, the Department of Defense depends upon to a high degree. Many public-utility type facilities fall into this category.

In such facilities, when classified information is involved, we are able to determine the employee who is considered a security risk and to prevent him from working on classified work or from having access to classified information. Such an individual, however, may continue his employment with the facility, thus constituting a potential threat to our security posture.

This situation is further aggravated in instances where the employees of the facility, who, with minor exceptions, are loyal, trustworthy Americans, yet are being represented in labor-management relationships by a union which is Communist controlled. Such loyal employees, although ostensibly serving a genuine union cause, can be misled to serve a purpose which, in fact, is politically inspired and contrary to our Government's best interests. Notwithstanding the good intentions of a majority of the members of such a union, the fact that Communist leadership controls the policy of the union presents a real danger.

We should recognize that whenever any kind of situation, such as that discussed here, is identified and then permitted to continue, the element of risk to our Nation's security runs unacceptably high.

Mr. MORRIS. Thank you very much, Mr. Applegate.

Now, Senator Hruska, we have taken testimony in the past which indicates that officials of the American Communications Association have been identified as members of the Communist Party. We have also had testimony, sworn testimony, that certain employees of the RCA and the Western Union in New York, working at the place which was organized by the American Communications Association, have also been Communists.

We had subpoenaed for yesterday the four officials of the ACA. They are Mr. Joseph Kehoe, secretary-treasurer; Mr. Joseph P. Selly; Mr. Louis Silverberg; and Mr. Charles L. Silverman.

Mr. Silverberg is the editor of the union newspaper, the ACA News. The rest are associated with the ACA.

We have subpoenaed for tomorrow some employees who have been identified in our record as having been members of the Communist Party.

Because it was necessary to defer the hearing of yesterday, Senator, the ACA officials will testify tomorrow at the same time as the employees of the Western Union.

Now, in 1953, Senator, when this Internal Security Subcommittee looked into the situation, the subcommittee made an extensive recom-

mendation to the chairman of the Senate Labor Committee. The idea of making that recommendation was to set in motion steps which would lead to legislation which would clear what the subcommittee then held to be a bad security situation.

I will read, Senator, if I might, one paragraph from that letter which Senator Jenner, who was then chairman of the Internal Security Subcommittee, sent to the Senate Labor Committee:

In 1951, the Internal Security Subcommittee of the Senate Committee on the Judiciary held extensive hearings on the American Communications Association. In those hearings, the Communist control over the labor organization was amply established. This American Communications Association is now the certified bargaining agency for some approximately 5,000 employees of the Western Union Telegraph Co. in the metropolitan area of New York, and some 200 employees of the Western Union Cable Company of New York City, for RCA communications on the east and west coasts, and for employees in certain broadcasting stations, mostly in New York and Philadelphia.

I would suggest, Senator, that Mr. Lenahan, who is down from New York and is acquainted from his own long experience with the precise nature of the facilities about which we are concerned here—that he testify at this point, and that Mr. Appelgate then ask questions or be asked questions about Mr. Lenahan's statement.

Senator HRUSKA. Have you a prepared statement, Mr. Lenahan?

Mr. LENAHAH. No; I have no prepared statement.

Senator HRUSKA. Will you be sworn.

Do you solemnly swear that the testimony you are about to give before the Internal Security Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LENAHAH. I do.

#### TESTIMONY OF JOSEPH J. LENAHAH, HACKENSACK, N. J.

Mr. MORRIS. What is your business or profession, Mr. Lenahan?

Mr. LENAHAH. I didn't hear you.

Mr. MORRIS. What is your business or profession?

Mr. LENAHAH. I am technician for the Western Union Telegraph Co., and I am also president of the Telegraphers Union, Local No. 146, located at 150 Nassau Street, New York City.

Mr. MORRIS. How long have you been working in the work you have just described to the subcommittee?

Mr. LENAHAH. Forty years.

Mr. MORRIS. Will you give us a brief sketch, by way of qualifying as a witness today, of your 40 years' experience?

Mr. LENAHAH. Well, I had 42 years' service with the Western Union Telegraph Co., 40 years of which has been associated with the testing and regulating department of that company.

Now, my work mostly consists of testing wires and circuits. We have access to these circuits by being called in by customers or Government agencies, whoever happens to lease these circuits from the Western Union Telegraph Co.

Mr. MORRIS. What is your title right now, Mr. Lenahan?

Mr. LENAHAH. With the Western Union?

Mr. MORRIS. Yes.

Mr. LENAHAH. Wire chief.

Mr. MORRIS. You are a wire chief.

Now, as a wire chief, what are your duties?

Mr. LENAHA. Well, if these circuits fail——

Mr. MORRIS. You say, "these circuits." What circuits, generally, are we talking about?

Mr. LENAHA. I handle all sorts of circuits. Government circuits, private industry circuits, Western Union traffic circuits.

Mr. MORRIS. I wonder if you would, physically, tell us what some of these circuits are that extend through Western Union in New York?

Mr. LENAHA. Well, we have the United States Army circuits, the United States Air Force circuits, United States Coast Guard circuits, the CAA, Civil Aeronautics circuits, and most of your commercial airlines. Many industrial firms also, that handle classified business for the Government.

Mr. MORRIS. Now, these circuits all physically run from New York; is that right?

Mr. LENAHA. The majority of them do; yes.

Mr. MORRIS. To your knowledge, do these circuits carry classified messages?

Mr. LENAHA. I assume so. Many of them carry coded messages.

Mr. MORRIS. Now, as a wire chief, do you have access to the messages that come through all these various circuits?

Mr. LENAHA. I will have to qualify my answer on that. My duties are general, as far as a wire chief is concerned. I also work in the repeater department, where I do have access to going in on these circuits. It is very necessary that someone does go in on these circuits every once in a while to check biases or to find out why the circuit is not working properly.

Mr. MORRIS. Well, now, how many people are there who would have access to all these circuits?

Mr. LENAHA. Well, in my own department, there is approximately 50. However, there are other circuits that may go through what we call the varioplex——

Mr. MORRIS. Would you spell that, please?

Mr. LENAHA. V-a-r-i-o-p-l-e-x. That is located on another floor.

The title of the men handling them is automatic technician. Now, there could be drops off main circuits going over these varioplex circuits to local industry or local Government agencies.

Mr. MORRIS. If these various people have access to the wires—does that mean that at any time any of these people can intercept whatever message is going through that wire?

Mr. LENAHA. Well, Mr. Chairman, when I am called in on these circuits, or any other man in my position, it is necessary for us to cut in with a printer—a teletype printer—these types are usually tape printers. Whatever is being sent over there—some of it is live business, but when we go in, we usually run a test.

We can stay in there, and we do quite often, to see if the circuit gets underway.

Mr. MORRIS. You mean, you can intercept——

Mr. LENAHA. I can read whatever the customer is sending, whether Government or industrial. We are supposed to destroy that tape—throw it in the wastebasket.



For the purposes of this investigation, I believe you are looking for the potential accessibility for espionage and sabotage. I said a moment ago that we are supposed to throw this tape away, and we do, in most cases. But the possibility is there, that if someone wanted to take that material, they could roll that tape up instead of throwing it in the wastebasket, and put it in their pocket.

Mr. MORRIS. That would be true, whether it is coded or noncoded?

Mr. LENAHAAN. That is true.

Mr. MORRIS. Suppose these messages were coded that are being sent over these particular wires. What would come out of this tape that you describe?

Mr. LENAHAAN. Well, on most of your military circuits, the Defense Department uses what is known as a telecrypton. That changes the pulses coming over the circuit. For a man like myself, working on the circuit, we could not read that. That would look like a bunch of junk to us. But there is a potential danger there, because I could take that coded tape and stick that in my pocket, if I were a member of an espionage ring, and deliver it to a key point where another member of the espionage ring could take it where they have people who could change the telecrypton on these machines.

That tape would be of no value to me personally as an individual, or as a member of an espionage ring. But it could possibly be of some service to an overall espionage ring.

Mr. MORRIS. Now, Senator, I would like to point out at this time that the evidence that we have in our records indicates that the overwhelming majority of the employees organized by the American Communications Association are loyal citizens. At the same time, the evidence does show that there are some who have been identified as Communists.

The fact of the matter is that, in the election, it is the so-called Communist slate that prevails.

Mr. Lenahan, can you tell me what the last election result was?

Mr. LENAHAAN. No.

I would like to make it clear here that I know of no individual that I would suspect—that is, in my department—that would give the ACA any information. But, as I said earlier, the potential is there if anyone desired to do so.

I think, to answer your question on the results of the last election, Mr. Hageman back here could give us those results better than myself. I don't recall them.

Mr. MORRIS. Well, the slate that is now in office prevailed over the opposition slate by roughly 2 to 1—is that not right?

Mr. LENAHAAN. I would say that is approximately right.

Mr. MORRIS. Senator, Mr. Hageman is here. Would it be out of order if we asked him at this time?

Senator HRUSKA. It would not be out of order.

Would he come forward and sit at the table to answer what questions are put to him?

Senator HRUSKA. Do you solemnly swear that the testimony you will give before the Internal Security Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HAGEMAN. I do.



## TESTIMONY OF E. L. HAGEMAN, ARLINGTON, VA.

Mr. MORRIS. Could you tell us what the results were at the last election?

Mr. HAGEMAN. Are you referring to an ACA election?

Mr. MORRIS. Yes; the ACA election.

Mr. HAGEMAN. An election of the ACA officers?

Mr. MORRIS. That is right.

Mr. HAGEMAN. They had no opposition. That is understandable, because there was testimony before this subcommittee in 1951 or 1952 that in one ACA election, the ballot boxes were stuffed. Some of the ballots were opened, and the ballots were changed, and it was a completely rigged election.

Since that testimony, which was made public, there has been no opposition to the ACA officers, and it is my recollection that, in the last election, they had no opponents. They were elected without opposition. I suppose the opponents, after reading how they conducted their elections, gave up and decided not to run any more.

Mr. MORRIS. How about the elections as to who would represent the employees of the RCA and Western Union as bargaining agent? What was the voting that way?

Mr. HAGEMAN. I don't recall that they have had an election. You are talking about an NLRB certification election?

Mr. MORRIS. Yes.

Mr. HAGEMAN. I don't recall that they have had a certification election in RCA Communications for years. In the Western Union, our organization, the Commercial Telegraphers Union, Western Union division, conducted two campaigns, in 1952 and in 1953.

In the first campaign, the votes for ACA were approximately 2,200, and for the CTU, AFL-CIO, it was about 1,800.

Mr. MORRIS. That is 2,200 to 1,800?

Mr. HAGEMAN. That is correct.

In the 1953 election, it was about 2,400 to 1,600.

Senator HRUSKA. What was the second organization? The ACA had 2,400, and—

Mr. HAGEMAN. And the Commercial Telegraphers Union, our organization, in the second election, we received about 1,600 votes; in the first one about 1,800.

Senator HRUSKA. For the record, will you give your address, please, and your official title?

Mr. HAGEMAN. My official title is national president of the Western Union division, Commercial Telegraphers Union, AFL-CIO. We represent all of the Western Union workers throughout the country except in the New York metropolitan area.

Senator HRUSKA. And your address, Mr. Hageman?

Mr. HAGEMAN. My office or home?

Senator HRUSKA. Both.

Mr. HAGEMAN. My home address is 4205 Fourth Street, South, Arlington, Va. My office address is 918 Dupont Circle Building, Washington.

Senator HRUSKA. In reference to the work you described as wire chief, and your activities there, Mr. Lenahan, which of the employees belong to the one union or the other in this particular instance?

Mr. LENAHAAN. The employees I am referring to all belonged to the ACA, the American Communications Association. I am also under their jurisdiction, although I am an officer of the AFL.

Mr. MORRIS. And the significance of the vote, 2,200 to 1,800, would be if the Commercial Telegraphers Union prevailed, you would then be working under the Commercial Telegraphers Union rather than the ACA?

Mr. LENAHAAN. That is right.

Mr. MORRIS. I wonder if you could tell us how many categories of employees there are working in Western Union in New York?

Mr. LENAHAAN. I would say there are about 100. But the main categories are automatic operators.

Mr. MORRIS. What are automatic operators?

Mr. LENAHAAN. They handle commercial messages, and work on tie lines to industrial concerns and military establishments.

Mr. MORRIS. Do they have access to messages on wires?

Mr. LENAHAAN. Yes; they could read anything that is in English. There is also the possibility that they could lift those messages.

Mr. MORRIS. You mean, take the tape?

Mr. LENAHAAN. Take the tape, or the message itself could disappear.

Senator HRUSKA. In their testing activities, could they take the tape, as you have described?

Mr. LENAHAAN. No; they don't do any testing; they just transmit the messages over the circuits.

Senator HRUSKA. Is there a teletype record of those messages made which would be available to them?

Mr. LENAHAAN. That is right; yes.

Senator HRUSKA. As well as the text of the message from which they work?

Mr. LENAHAAN. That is right.

Mr. MORRIS. Roughly, how many automatic operators are there?

Mr. LENAHAAN. I would say around 400.

Mr. MORRIS. What other general categories of employees are there?

Mr. LENAHAAN. Well, there are teletype operators, route clerks, service clerks, printer maintainers—

Mr. MORRIS. I wish, Mr. Lenahan, for the record, that you would describe generally whether these particular people have access to these wires.

Mr. LENAHAAN. Well, to go back to the teletype operators, they have the same access to commercial messages as I described for automatic operators.

Now, a printer maintainer is an individual that is sent out from the main office to maintain the equipment on the circuits in industrial firms or military establishments. They would be able to see correspondence laying around, or they could see the messages coming over the printers that they are working on. It is usually a practice to stay around after they do repair these machines, to see that the circuit does get under way.

Mr. MORRIS. What other classifications are there now, Mr. Lenahan?

Mr. LENAHAAN. Well, we have the automatic technician. He also has access to commercial messages, and some of these men also work in what is known as the varioplex department and on these varioplex circuits, they have what they call subchannels that are leased to firms for what they call telemeter service. That is where they count the

number of characters to determine the charges. But these men in the varioplex department do have access to what is going over these sub-channels from both the industrial firms and military establishments.

Senator HRUSKA. What are the duties of the automatic technician?

Mr. LENAHAH. That is what I just described. He maintains the equipment on the varioplex.

Senator HRUSKA. He maintains the equipment you have just described?

Mr. LENAHAH. That is right.

Senator HRUSKA. What about the service clerks you described? What do they do, and where?

Mr. LENAHAH. That is where all your messages are filed after they are sent on the circuits. Anyone in there could go through any particular file. I don't know how much they separate them. They might separate them into districts, or they may separate them into different classifications, like alphabetically for the industrial firms, or put all Government messages in the same pigeonhole.

I don't know just how they break it down, but the employees in the service department do have access to all commercial messages.

Senator HRUSKA. As to messages which are sent, whether they are classified, coded, industrial, or commercial, are those messages which are transmitted and then placed on file, the text of those messages?

Mr. LENAHAH. Yes.

Senator HRUSKA. How long are they retained on file?

Mr. LENAHAH. I don't know exactly. I have heard they retain messages in some form or another for 2 years.

Senator HRUSKA. Of course, they would be available in their filed form to these service clerks in charge of filing and maintaining the office generally?

Mr. LENAHAH. They are only available to these service clerks for a couple of days, and then taken out of there and stored for a period of 2 years.

Senator HRUSKA. Who is in charge of the files in their stored condition?

Mr. LENAHAH. I don't know.

Senator HRUSKA. Wouldn't it be some aspect of the duties of the clerks in charge of the filed records?

Mr. LENAHAH. I imagine that would come under the accounting department.

Senator HRUSKA. Now, Mr. Lenahan, how many of these workers to whom you refer are members of the ACA?

Mr. LENAHAH. Well, I would say approximately 80 percent.

Senator HRUSKA. And the balance of them would be members of what union?

Mr. LENAHAH. They would not be members of any union in New York City. They may be members of the CTU, but we have no jurisdiction over them as far as the NLRB is concerned. We can't bargain for them, or anything like that. They are only members of the CTU local there, because they don't like the ACA, and for some reason or another have either resigned or never did join the ACA.

Senator HRUSKA. But the ACA is the bargaining agent for all of them?

Mr. LENAHAH. That is right.

Senator HRUSKA. And it is your estimation that about 80 percent of these workers in the work you have described, the various lines of work, are members of the ACA?

Mr. LENAHAAN. That is correct.

Senator HRUSKA. All told, how many would you say there are, those that you have just described?

Mr. LENAHAAN. In the Western Union Telegraph Co., that is, the landlines, I would say there is around 4,500.

Mr. MORRIS. The RCA?

Mr. LENAHAAN. That is not including RCA.

Mr. MORRIS. How many, including RCA?

Mr. LENAHAAN. I think there is around 200 in RCA.

Mr. MORRIS. They are also organized by ACA?

Mr. LENAHAAN. They are under the jurisdiction of American Communications Association.

Senator HRUSKA. And it is this total of which you say approximately 80 percent is ACA?

Mr. LENAHAAN. I am only referring to Western Union Telegraph Co. landlines department.

Mr. MORRIS. Are there any other job lines you should tell us about?

Mr. LENAHAAN. Not that I know about.

Mr. MORRIS. What are T. and R. men?

Mr. LENAHAAN. That means testing and regulating. They are either wire chiefs or repeater chiefs.

Mr. MORRIS. They, too, have access to all the wires?

Mr. LENAHAAN. Yes; that is what I talked about here earlier in describing my own duties.

Mr. MORRIS. Isn't it true, then, Mr. Lenahan, that virtually all of these employees of the RCA and the Western Union have access to the wires?

Mr. LENAHAAN. By degrees. Some have a greater access than others. But there are hardly any employees in the communications system that don't have access to any message file, whether it be on lease lines or regular commercial messages.

Mr. MORRIS. Now, is there also a possibility of sabotage? I mean, what you are generally describing is interception of messages and has to do with espionage.

Now, is there any danger of sabotage, do you know?

Mr. LENAHAAN. Yes; there is a great danger of sabotage. If we were at war with Soviet Russia, there is nothing to stop an individual from pouring acid on the cables.

Prior to the last time I was before this committee, I purposely went around and just touched each cable without anybody detecting me doing that.

Mr. MORRIS. That is by way of aiding your testimony?

Mr. LENAHAAN. That is right.

I could just as easily have gone along with a bottle of acid and poured it on those cables, and nothing would have happened for perhaps a couple of days. By that time, nobody would have known who did it. There is great potential of sabotage in the event of war there.

Mr. MORRIS. Is there any other way of disrupting cables other than applying acid to the wire.

Mr. LENAHAAN. You could stick spikes in them, or use a hacksaw on them. But if someone wanted to put the telegraph company out of



service, I think the acid method would be the best, because there is the least possibility there of being detected.

Mr. MORRIS. How much time would be consumed in repairing these wires that had been severed or cut or burned?

Mr. LENAHAN. It would take weeks or months to put the New York office back in operation if any such thing as I described took place.

Mr. MORRIS. Is there anything else you can tell us, generally, about the possibility of sabotage?

Mr. LENAHAN. No; not that I can think of at the moment.

Mr. MORRIS. Is there anything more that you feel this Internal Security Subcommittee should know in analyzing this situation from the security point of view, that you can tell us now in testimony?

Mr. LENAHAN. Well, I have always felt with a Communist-dominated American Communications Association being the bargaining agent there, there is a great possibility of both sabotage and espionage.

We realize that the Western Union Telegraph Co. is in an untenable position with one Government agency certifying an organization where there has been so many hearings, and practically everybody concedes that the leaders of this organization are members of the Communist Party.

We feel that some legislation should be passed to decertify this organization.

Mr. MORRIS. Senator, I might say that at the time of the last testimony, Mr. Hageman's testimony, he brought up the possibility which again arose in the subsequent hearings at Honolulu, that consideration should be given to legislation. I recall Mr. Hageman wanted to be very careful to say he was not recommending this legislation. But, as a point of fact, previously the NLRB had always annulled the existence of a union if evidence were presented that the union was company dominated. Therefore, the Board decided by a preponderance of evidence that the union was in fact company dominated and the union could therefore be disestablished.

Mr. HAGEMAN. May I say something on that?

Mr. MORRIS. Surely.

Mr. HAGEMAN. The point I was trying to bring out in my testimony was this: In the Western Union Telegraph Co., we had a company union for about 20 years. Charges were filed against that company union. It was called the Association of Western Union Employees. Charges were filed against that company union about 1936 or 1937.

The NLRB held hearings and declared it a company-dominated organization. The courts upheld it, and that company union was wiped out. The NLRB used the word "disestablished." That company union was wiped out within a matter of 2 years—I believe it was 2 years, at the outside.

I believe that, under the Wagner Act, the NLRB just about wiped out all of the company-dominated unions in the United States. I don't think there are any, or very few, of them in this country today. I think the people feel that way.

But these Communist-dominated unions, which I feel are a far greater danger to our country than company-dominated unions, go on and on for years, and nothing is done. This testimony about the Communist-dominated ACA was given a couple of years ago. They were kicked out of the CIO because of Commie control and domination following the Commie Party line in 1950. But they go on and on.

But, as a union officer and an American citizen, I can't understand why they can wipe out the company unions in a couple of years, but nothing is ever done about the Commie-dominated unions.

Senator HRUSKA. Are any complaints filed before the NLRB in that connection?

Mr. HAGEMAN. Complaints have been filed, but it is my understanding that under the law, the NLRB must certify.

Now, for example, many of my good friends, some of them good Republicans, told me in 1947, when Taft-Hartley went into effect, that one of the best things in Taft-Hartley was that it would get after Commies in the labor movement.

At that time I thought it was a good thing. I didn't like Taft-Hartley, but I thought that part of it was good. So what happened? All the labor leaders, union leaders, in this country have to sign non-Commie affidavits about every year. I have to sign them, Mr. Lenahan has to sign them, everybody has to; all the labor unions, if they get NLRB approval.

Under that provision in the Taft-Hartley, I bet they haven't caught a half-dozen Communists. The Commies are signing those affidavits.

So, what has been done? Who has gained by that provision in Taft-Hartley? The notaries have gained. We have to shell out 25 or 50 cents every time we sign one. That is the only gain I have seen under Taft-Hartley.

My understanding is NLRB receives those affidavits and can do nothing about it. They have to certify.

Senator HRUSKA. So it amounts to what you said before, that there are not any mechanics by which the NLRB can entertain any complaints for disestablishing this union. In essence, is that what you are saying again this morning?

Mr. HAGEMAN. That is right.

There is a Communist Control Act—I believe that is the name of it—which provides that the Attorney General can request the SACB to hold hearings, and the SACB can rule after hearings that an organization is Communist dominated. But that law has been on the books for quite a while, a few years, and nothing has ever come of it, that I know.

Senator HRUSKA. As a matter of fact, there are some proceedings pending right now under that statute.

But isn't the trouble with that statute that it proceeds under criminal standards, and is a difficult thing to prove? But under the disestablishing unions procedure, it was only a preponderance of evidence that was necessary for taking action.

Mr. HAGEMAN. That was my understanding when they held hearings on company-dominated unions. They looked at the pattern, and made the decision on that basis.

Senator HRUSKA. But not on criminal standard proceedings, where they have to prove beyond a shadow of a doubt.

Mr. HAGEMAN. I am not a lawyer, and I don't know what is required under that Criminal Control Act, but if the law requires that you must prove that somebody is a Communist member, that is pretty difficult to prove. I think it is a fact that the Communist Party went underground 10 years ago, and they no longer use Communist cards.

It is a pretty difficult thing to prove, that a man is a Communist. I think the newspapers and history books are full of cases of that kind.

Mr. MORRIS. I think the provision is that you have to show membership in an international Communist organization within the last 2 or 3 years. The standard is quite high. It is within the last 2 or 3 years.

As you know, Senator, we have very great difficulty getting Communists to testify that they were Communists within 2 or 3 years. As you know, for the most part, when we get evidence, it is 2 or 3 years old at the time.

If the Communist Control Act of 1954 requires this other high standard, that makes it difficult. We have talked to the Justice Department on that.

Mr. LENAHA. I would like to point out at this point that I am not pointing the finger at any individual as being disloyal, even though they are a member of the—that is, I am not talking about Western Union employees in New York as being disloyal, even though they are members of the American Communications Association.

However, as Mr. Applegate pointed out here, because of the political activities of Communists, these loyal Americans and honest Americans who are members of the American Communications Association could inadvertently give information to the association, the American Communications Association officers.

I think that was brought out in Mr. Applegate's statement. That, in itself, is a potential for espionage.

Senator HRUSKA. I am awfully happy, personally, as one member of this subcommittee, that you make that statement. I feel quite confident that it will be true that the great body of the members of that union, as well as your union, are loyal, honest, and law-abiding citizens.

However, inasmuch as there is leadership in there which is suspect—and highly suspect—it provides a vehicle whereby even 1 or 2 or 3—and that is all it would take to pour 1 bottle of acid, judiciously distributed, to do great damage—it provides a vehicle of that sort to do espionage and sabotage, as well. It is that potentiality of activity to which we would like to address ourselves.

I am glad you brought that point up. It is one we should constantly bear in mind.

Mr. LENAHA. I am very happy to get the opportunity to come down here and help to eliminate any possibility of sabotage or espionage in the communications industry, whether Western Union or any other companies.

Senator HRUSKA. Have you any further questions of Mr. Applegate, in view of the testimony given by Mr. Lenahan and Mr. Hageman, Mr. Morris?

Mr. MORRIS. Mr. Applegate, is your department concerned about the possibility of sabotage with respect to these lines?

Mr. APPLEGATE. Well, yes, very definitely we are.

Mr. MORRIS. Does that pose a real threat to the security of the country in the event of any hostilities, let us say, with the Soviet Union?



Mr. APPLEGATE. These facilities represent and fill a very valid need in the communications pattern of the Department of Defense. Any loss or disruption could prove very serious under certain circumstances.

Mr. MORRIS. If there is a clash between the Soviet Union and the United States, would disruption of the communication lines present a threat to the security of the United States?

Mr. APPLEGATE. Very definitely.

Any loss of these facilities would have an impact on the overall good of the country, or facilities that were available for transmission of messages.

Senator HRUSKA. That impairment of services would reflect itself not only in military operations but likewise in industrial and logistics operations, wouldn't it?

Mr. APPLEGATE. That is quite true.

Mr. MORRIS. Do you think persons who have been identified as members of the Communist Party in our record, at least in the past—do you think that such people should have access to the messages that go over the wire?

Mr. APPLEGATE. I think we should clarify something about these messages before I answer that question.

Mr. MORRIS. Please do.

Mr. APPLEGATE. The Department of Defense sends no messages over any wire service of any kind that are classified in any way, without first encrypting the message so that the kind of messages that are sent through this service are in the same type of form, you might say, as messages which are released over the air through our radio communication facilities that all three military departments use.

So in that sense, there is not much more danger in having persons employed, such as you have identified, having access to these messages under these circumstances. There is not much more danger to it there than there would be if they picked up a message coming over the air, which is certainly easy to do.

Mr. MORRIS. What about intercepting a coded message in its coded form? Wouldn't that be of some assistance, as Mr. Lenahan pointed out?

Mr. APPLEGATE. Well, it could be. We have great confidence in our encrypting system and those who perform it. We have enough faith in them that we release messages over the air where they can be picked up by anybody who has a desire to pick them up.

In the form they are in, of course. What he discovers after he gets them is another matter. Whether he can do anything about it or not is entirely—

Mr. MORRIS. Senator, with Mr. Applegate today is Mr. Stempler, from the Department of Defense.

Would you identify yourself for the record, Mr. Stempler?

Mr. STEMPLER. Jack L. Stempler, Assistant General Counsel for Department of Defense.

Mr. APPLEGATE. We feel this way, that certainly the presence of any known Communist in a facility where our messages are being transmitted is not a desirable thing.

Mr. MORRIS. Is there anything more now on the general subject of sabotage that you would like to tell the committee?



Mr. APPLGATE. I think if there is a real threat here, and I believe there is, the threat is one in the main in the field of sabotage, rather than in the field of espionage.

Senator HRUSKA. It has been suggested that you can't pour acid on a radio wave. But pouring it on the wires or apparatus that sends that wave—then you are in trouble.

Mr. MORRIS. Senator, we have had testimony from witnesses identifying people as at some point in the past having been members of the Communist Party. One witness alone, Mrs. Ewell, has identified 22 people, both officials of the ACA and people who are actually working on these facilities, as having been members of the Communist Party. They participated in the same Communist meetings she did.

We are going to be calling in, in the next few days, some of these people.

As far as these witnesses are concerned now, I have no more questions, Senator.

Senator HRUSKA. I have none, either.

I should like to thank them very much for appearing here today and cooperating with us.

The subcommittee is adjourned.

(Whereupon, at 11:30 a. m., the subcommittee adjourned.)



# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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THURSDAY, MAY 9, 1957

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY ACT  
AND OTHER INTERNAL SECURITY LAWS,  
OF THE COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to call, at 11 a. m., in room 457, Senate Office Building, Senator John Marshall Butler presiding.

Also present: Robert Morris, chief counsel; William Rusher, associate counsel; Benjamin Mandel, research director; and Frank Schroeder, chief investigator.

Senator BUTLER. The committee will come to order.

The Internal Security Subcommittee has been assessing the strength of Communists in the labor movement.

Yesterday we had the Department of Defense officials and some labor leaders point out that there was a Communist-dominated union in the field of communications which had access to the important tie lines and other communications, which may pose a threat to the internal security of the United States.

We have therefore asked certain witnesses to appear and give testimony in the field of communications today.

Counsel, will you please call the witness?

Mr. MORRIS. Mr. Rabinowitz, one witness is not here this morning; is that right?

Mr. RABINOWITZ. That is right.

I requested that one witness be excused, Senator, and Judge Morris kindly consented to excuse him. I told Judge Morris that his testimony would generally follow the outline of the testimony given by Mr. Selly and his attitude with respect to answers to questions would be the same, and I think it was agreed that the stipulation be accepted.

Mr. MORRIS. I think you said he was not well, health prevented his attendance?

Mr. RABINOWITZ. That's right. That was Joseph Kehoe, secretary-treasurer of the international union.

Mr. MORRIS. Mr. Selly, will you stand and be sworn, please?

Senator BUTLER. Do you swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SELLY. I do.

Senator BUTLER. The witness is sworn.

## TESTIMONY OF JOSEPH P. SELLY, FORT LEE, N. J.

Mr. MORRIS. Will you give your name and address to the reporter, please?

Mr. SELLY. My name is Joseph S. Selly, S-e-l-l-y. My home address is 3021 Edwin Avenue, Fort Lee, N. J. My business address is 5 Beekman Street, New York City.

Mr. MORRIS. Now, how long have you been president of the American Communications Association?

Mr. SELLY. Since 1940, approximately.

Mr. MORRIS. Now, will you tell us how big a union is the ACA?

Mr. SELLY. Roughly—we currently have about 8,000 dues-paying members.

Mr. MORRIS. I wonder if you would give us a breakdown, as to where these members are employed.

Mr. SELLY. In the Western Union Landline Co., in the New York metropolitan area?

Mr. MORRIS. Western Union—

Mr. SELLY. Western Union Telegraph Co., the landline division; I am distinguishing that from the cable division.

Mr. MORRIS. How many are there, roughly?

Mr. SELLY. About 5,000.

RCA Communications, which is an international telegraph carrier, roughly 1,500.

French Cables, which is an international cable company, roughly 100.

Western Union Cables, which is the cable division of Western Union Telegraph Co.—

Mr. MORRIS. That goes overseas?

Mr. SELLY. That is correct. Roughly 300.

I would revise one figure—the RCA currently would be closer to 2,000 rather than 1,500.

Teleregister Corp., which manufactures equipment for use in brokers' offices, electronic equipment for them, those are the boards that flash the bids and prices—approximately 400.

A cafeteria which is operated on the premises of the Western Union Telegraph Co.'s main office at 60 Hudson Street, New York City, approximately 100.

A group of radio stations located in—as closely as I can recall now, in Philadelphia and New York City, and in these cities we represent mainly the studio technicians, and in some cases the transmitter technicians.

Mr. MORRIS. What stations are they?

Mr. SELLY. I can't recall the call letters of the stations. They are secondary stations in the New York City area. I say secondary; they are not the major networks.

Senator BUTLER. Would you provide those for the committee at a later date?

Mr. SELLY. Yes, I can give you a full list of those.\*

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\*Mr. Selly, in a letter to the subcommittee listed the stations as follows: New York—WLJB, WBNX; Philadelphia—WIGB, WPEN, WDAS, WHAT and WIP, adding that the contracts cover mainly technical personnel.



Roughly, in total, in all of these radio broadcasting or television—no, not television—radio broadcasting stations, 200.

Senator BUTLER. Tell me this, Mr. Selly. Does your union have exclusive rights in the field of communications, so far as the organization's workers are concerned?

Mr. SELLY. Well, let me answer that this way:

The constitution of our union asserts the right to organize all workers in the communications industry.

Senator BUTLER. In actuality, what percentage—

Mr. SELLY. The actuality is we represent a comparatively small proportion of the organized workers. For instance, there is an organization in the telephone industry which claims 350,000 members. There is a rival organization to us in the telegraph industry which claims roughly 35,000 to 40,000 members. There are at least 6 or 7 organizations in the broadcast and television industry which claim and represent substantial numbers of workers.

I would say there are roughly employed in the communications industry—we include radio, telegraph, telegraph cables, radio, and television—the total field probably employs close to three-quarters of a million people.

Senator BUTLER. Let me ask you this question:

In the field of international communications, what percentage of the workers do you represent?

Mr. SELLY. There we represent a substantial percentage.

Senator BUTLER. Including tie lines from the Department of State, Department of Defense, and other Government agencies?

Mr. SELLY. Well, you mean, do the companies we represent service these agencies? The answer is, "Yes."

Senator BUTLER. In other words, you organize the workers who monitor the lines and send the messages over the communications system that services the Federal Government and these various Departments?

Mr. SELLY. The question of monitoring lines is not so simple to answer.

The second part of your question can be answered unequivocally; yes.

The members of my union who are employed, for example, in Western Union Cables, send and receive messages to every point that is serviced by that company, because—I say that because my union represents all the workers in that particular company.

Now, as to monitoring, when a worker receives a message for retransmittal, he may be required to check that message for accuracy, and he—generally, if there are any mistakes, he gets in touch with the sender and gets the corrections.

In many cases the worker is not required to do that, because the mechanization of the industry has resulted in mechanical transmission through the main office. In other words, the sender sends on a machine, and it is automatically reperforated and not received by a worker at the Western Union Cable office, and it goes to the distant point without the intermediate operation by an operator.

Senator BUTLER. But the membership of your international union is in charge of the machine, and the machines are in their physical control at all times; is that not right?

Mr. SELLY. Those employees whose function it is to service the machine, service those machines, they are members of my union.

Senator BUTLER. And that is true of all international communications?

Mr. SELLY. It is true of RCAC, of French Cables, and of Western Union Cables. There is another international communications carrier which represents a fairly substantial proportion of the business—the A. C. & R., American Cable & Radio. And there is, of course, A. T. & T., which represents a very substantial proportion of the international communications, and in neither of the latter two do we have any members.

Senator BUTLER. Are there any general cables now in use to Germany, direct cables in use?

Mr. SELLY. There are no direct cables to Germany. They would terminate either in Ireland or the Azores, or some coastal point at a cable-landing place. If a cable were destined for Germany or for Russia or for anywhere else other than the country in which the cable-landing station was located, it would be transmitted from the point of reception, from the cable-landing station, via one of the several means of communication—via telephone, radiotelegraph, by landline telegraph.

Mr. MORRIS. Now, your T. and R. men, testing and regulating personnel, they have access at all times to all messages going through any cable, any time, do they not, Mr. Selly?

Mr. SELLY. I am not a cable technician, and I—

Mr. MORRIS. We had a man testify yesterday; he said the wires were completely open for testing purposes and for regulating purposes at any time.

Mr. SELLY. I would accept that as generally a correct statement.

Mr. MORRIS. And there are other technicians, too, who have access, generally, to the wires and the cables?

Mr. SELLY. They could have. If their function—

Mr. MORRIS. If the occasion arises?

Mr. SELLY. Yes. If the function of their work required that they service a particular printer or repeater, they could see the message that was being transmitted.

Mr. MORRIS. There are other employees who have access to the messages before transmittal, people in the office, who help in originating the message, who send it on?

Mr. SELLY. Of course, if you come in a Western Union Telegraph office and file a cable, the clerk who takes your message checks it for the number of words, in order to tell you what the tariff is. Simply, when that message is transmitted from this telegraph office to the cable office, if it isn't automatically reperforated and sent to a distant point, an operator may receive it and simply check it at this occasion, not for the tariff but for the word count, for corrections, and so forth.

Senator BUTLER. But the T. and R. men also have access to various descriptions of coded messages; do they not?

Mr. SELLY. I wouldn't think so, I don't know.

Senator BUTLER. Don't coded messages go over these tie lines from the Department of Defense, Department of State?

Mr. SELLY. I have been told that that is so.

Senator BUTLER. They would have access to that, then; wouldn't they?

Mr. SELLY. They would have access to the machinery which is doing the transmitting, and if that——

Senator BUTLER. They have access to the complete system at any time, for the purpose of testing or revising; wouldn't they?

Mr. SELLY. Testing, or what? I didn't understand.

Senator BUTLER. Testing or regulating it.

Mr. SELLY. Yes, yes; that would be their function.

If anything went wrong with the printer in the office operation, the T. and R. man would be called by the supervisor or operator.

Senator BUTLER. Well, whether or not it went wrong, he would have the right to break in on the cable at any time?

Mr. SELLY. Well, he wouldn't have the right to do that. He would have the power to do it, physically; he would have the opportunity. He wouldn't have the right to it.

Senator BUTLER. I will not draw such a fine distinction.

Mr. SELLY. Well, the companies would. The point is, if you want an accurate description of what a T. and R. man does, he is a trouble-shooter. He is called on when a machine breaks down, when there is something wrong with a circuit, a line, a piece of equipment, he repairs that circuit, line, piece of equipment.

Mr. MORRIS. Now, Mr. Selly, there has been testimony before this subcommittee that some operators organized by your union have been members of the Communist Party. Let me ask you at the outset:

Are you now a member of the Communist Party?

Mr. SELLY. I decline to answer that question.

Senator BUTLER. What is the basis of your declination?

Mr. SELLY. My constitutional rights under the first and fifth amendments to the Constitution.

Senator BUTLER. Well, the committee will recognize your rights under the fifth amendment; we will accept that as a justifiable reason for refusing to answer.

Mr. MORRIS. Could you tell us, Mr. Selly, whether or not there are Communists in the ACA?

Mr. SELLY. Same answer; I refuse to answer on the same ground.

Mr. MORRIS. We also received testimony that officials in the American Communications Association have been Communists.

Can you tell us whether, to your knowledge, there are officers of the ACA who have been members of the Communist Party?

Mr. SELLY. I refuse to answer, on the same ground.

Mr. MORRIS. Now, Mr. Selly, do you have—Who is your accountant?

Mr. SELLY. I don't recall his name, I don't recall the name of the firm.

Mr. MORRIS. How long has that firm been doing your accounting?

Mr. SELLY. I think the present accountant has been employed by the union for roughly the last 4 or 5 years.

Mr. MORRIS. And you can't tell us who he is?

Mr. SELLY. I can check with my office and give you the name, but I don't know it offhand.

Mr. MORRIS. Have you got the authority to make available the books and records of your company to the committee; do you have the authority?



Mr. SELLY. Of my union?

Mr. MORRIS. Of your union.

Mr. SELLY. No; I don't have the authority, without authorization by the international executive board of the union.

Senator BUTLER. Mr. Selly, would you be amenable to the production of those records, or requesting the board to release those records for the purposes of this subcommittee?

Mr. SELLY. I would like to consider that question with my colleagues. I should mention that my union, long before it was a legal requirement, as a matter of fact, the constitution of my union required—and this was many, many years before there was any legal requirement—that we publish regularly in our journal, which is available to all members, a regular audited financial statement, and we have done that since the inception of this union.

In addition, of course, we file the required financial statement with the Department of Labor.

Senator BUTLER. Well, of course, they are not open to public inspection, as you know.

Mr. SELLY. My newspaper is available.

Senator BUTLER. As a matter of fact, they have been denied congressional committees: have they not?

Mr. SELLY. I don't know.

Senator BUTLER. Well, I can tell you that they have.

Now, also, there may be other matters that we would be interested in. You published this newspaper; we may want to know who the subscribers are, and to whom you send this newspaper.

Would you be willing to submit a list of the persons to whom this paper is sent?

Mr. SELLY. There are several problems involved in that, and I will consult with my international executive board, but I want to mention what the problems are.

You are, in effect, asking me to submit a list of my membership, because under the constitution, every member of the union receives a copy of that newspaper.

I don't know whether it is appropriate for this committee to ask me to supply membership lists.

Senator BUTLER. We are also interested in whether or not any copies of this paper go to organizations outside the United States.

Mr. SELLY. As I indicated to you in the executive session, I can recall of a specific instance where it does. We exchange our newspaper, I assume we exchange it, with the paper called the Australian Telegraphist. I assume it, because in the recent issue of that paper I saw a quote from our newspaper.

Senator BUTLER. Would you also exchange it with some of the unions in Red China?

Mr. SELLY. You say, "Do we?"

Senator BUTLER. I say, "Would you?"

Mr. SELLY. I don't know; the occasion hasn't arisen for us to make that judgment.

Senator BUTLER. In other words, it is your testimony that the paper does not now go to any union or organization or person in Red China?

Mr. SELLY. I don't know what the answer to that is. I would have to consult the records.



Senator BUTLER. Would you let us know later, for the record, whether or not such contact was made through this newspaper, or otherwise, by your union?

Mr. SELLY. I will, as you suggested in executive session, consult with the members of the international executive board to determine whether or not, in their judgment, this is appropriate to submit the list to you.

Senator BUTLER. Yes.

Mr. SELLY. I assume now you would limit the list to outside receivers and not members of the union; is that correct?

Senator BUTLER. Well, that would be satisfactory.

Now, I see here in your international general fund, January 1-December 31, 1956, ACA News, the total subscription is \$9.

Don't the members pay for the newspaper?

Mr. SELLY. No; it is included in their dues.

Senator BUTLER. Who would pay for it?

Mr. SELLY. The Senate, the House, the Library of Congress, almost every university in the country that asks for it, and most of them do.

In many cases we exchange newspapers with universities, or with others. In some, they pay a nominal subscription, I don't know what it is.

Mr. MORRIS. How extensive is the distribution of the ACA News to universities?

Mr. SELLY. To universities?

Senator BUTLER. I would say, from the standpoint of the \$9 total subscriptions, that it is not very substantial.

Mr. SELLY. I think we are rather generous in connection with universities, and in many cases we don't collect. I think it is pretty substantial. All of the major universities, I think, get the paper.

Mr. MORRIS. How about Government agencies?

Mr. SELLY. My impression is that any Government agency that ever asked for it, gets it. We send it to those who are interested, they get it.

The members of the Federal Communications Commission sometimes perhaps wish they didn't get it. We send it to any Government agency which expresses interest in it.

If you would like to be put on the mailing list, we would be happy to put you on the mailing list and maybe get a buck from you.

Senator BUTLER. How frequently is the paper published?

Mr. SELLY. Once a month—with the exception of 1 month in the summer, when it is not published.

Senator BUTLER. It has an advertised price of 10 cents a copy, and I assume that an annual subscription would be a lesser amount than 12 times 10 cents?

Mr. SELLY. Well, you wouldn't get hurt too much if you got on the mailing list.

Mr. MORRIS. Has the American Communications Association ever contributed to any organization which was controlled by the Communist Party; specifically, let me ask about the Civil Rights Congress?

Mr. SELLY. I would refuse to answer on the same grounds cited previously.

Mr. MORRIS. That would be true in regard to any other organizations similarly described to you?

Mr. SELLY. Yes.

Senator BUTLER. In other words, as to those questions, you take the protection of the fifth amendment?

Mr. SELLY. I do. The first and the fifth, which I regret to say you don't recognize, but I am going to try to convince you that the first is as valid as the fifth.

Mr. MORRIS. Senator, I have no more questions of this witness.

Senator BUTLER. Thank you, Mr. Selly.

Mr. MORRIS. Will you have the editor of the ACA News come next?

Mr. RABINOWITZ. Yes.

Mr. MORRIS. Will you be sworn, Mr. Silberman?

Senator BUTLER. Mr. Silberman, will you hold up your right hand.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SILBERMAN. I do.

### TESTIMONY OF CHARLES L. SILBERMAN, NEW YORK, N. Y.

Mr. MORRIS. Will you give your full name and address to the reporter?

Mr. SILBERMAN. Yes. My name is Charles L. Silberman. I am editor of the American Communications Association; address, 5 Beekman Street, New York City.

Mr. MORRIS. That is S-i-l-b-e-r—

Mr. SILBERMAN. "B"; "b" for "boy."

Mr. MORRIS (continuing). M-a-n.

You say you are the editor of the ACA News?

Mr. SILBERMAN. Yes.

Mr. MORRIS. Will you give us the circulation of the ACA News?

Mr. SILBERMAN. I don't know exactly. I think it is between eight and ten thousand, somewhere.

Mr. MORRIS. Now, you heard the testimony of Mr. Selly to the effect that he was going to make an effort to find out what your overseas distribution was?

Mr. SILBERMAN. Yes.

Mr. MORRIS. And can you tell us anything more about the distribution of the ACA News to Government agencies and universities, libraries?

Mr. SILBERMAN. Well, no; I think that Mr. Selly pretty much covered it. He described our policy as a generous one. I think it is just that.

We get a request from a university; in some cases the university has—they send us a bill, in which case we will send them a bill, and, by the way, the bill is one buck, \$1 for a year's subscription. In other cases they may ask for it on an exchange basis, and we will work that out.

In other cases they just ask for it, and in which case they get it without getting billed.

Mr. MORRIS. What is the general policy of your paper, Mr. Silberman?

Mr. SILBERMAN. That is a very large—it's a huge question.

Mr. MORRIS. I realize that.

Mr. SILBERMAN. The policy that the paper follows is the policy of the organization, the American Communications Association, which

is adopted by convention actiton, referendum, whatever the forms are that are set out in the constitution of the union.

The job of the paper is to reflect those policies as best I can make them reflect those policies.

Mr. MORRIS. Mr. Silberman, are you now a Communist?

Mr. SILBERMAN. I won't answer that.

Mr. MORRIS. Why will you not answer that?

Mr. SILBERMAN. I won't answer it because I am not required to answer it under the first amendment of the Constitution, and under the fifth amendment of the Constitution.

Senator BUTLER. Mr. Silberman, do you believe that an honest and true answer to that question would tend to incriminate you?

Mr. SILBERMAN. I believe, in the first place, that under the first amendment what I believe in and what I am is my business and not the business of this committee. That is, under the fifth amendment—

Senator BUTLER. Even though you may be a member of the conspiracy whose sole purpose is to destroy the Government of the United States by force and violence?

Mr. SILBERMAN. I believe that what I believe is strictly my business, and not this committee's business, and that is stipulated in the—

Senator BUTLER. Do you believe that this country should be overthrown by force and violence by an international conspiracy; is that what you believe?

Mr. SILBERMAN. Well, as I understand it, there is a considerable body of criminal law which would take care of this kind of question, and I imagine—

Senator BUTLER. I am not interested in the criminal law. I asked you the plain and simple question: Do you believe that it is your business and not the business of the Senate of the United States or any agency of the Government, that you believe in a conspiracy that is dedicated to overthrowing the Government of the United States through force and violence?

Mr. SILBERMAN. If there is any violation, if I am involved in any violation of the criminal law—I imagine that would be the business of the—

Senator BUTLER. That goes to the point that I am asking you. Would an honest answer to the question—

Mr. SILBERMAN. I am trying to give you a straight and honest answer.

Senator BUTLER. That we have asked you subject you to prosecution under the criminal law? That is just the question we are asking you.

Mr. SILBERMAN. Well, I don't know.

Senator BUTLER. Is it your honest belief that it would?

Mr. SILBERMAN. If you are asking me the question which goes to the fifth amendment—

Senator BUTLER. That is the question I am asking you.

Mr. SILBERMAN. Would you reformulate it, sir, so I know exactly what I am answering?

Senator BUTLER. What I am asking you: Do you believe that an honest answer to the questions just asked you by the chief counsel of the Internal Security Subcommittee would tend to incriminate you?



MR. SILBERMAN. I believe that under the fifth amendment I am not required to give testimony against myself; I am not required to give answers which might lead to any unjustified prosecution of me.

Senator BUTLER. Well, let's don't talk about—

MR. SILBERMAN. That's pretty clear.

Senator BUTLER. A prosecution of you.

MR. SILBERMAN. I think the language of the—

Senator BUTLER. All right. That's enough.

MR. MORRIS. Mr. Chairman, I would like to point out there is evidence in the record of the Internal Security Subcommittee of a witness who was a Communist—at least one witness—that the witness today has been a member of the Communist Party. The subcommittee, having that evidence, recognizes that this witness is competent to testify, if he will, to the nature of the particular Communist group that he was in, and he is in a position to give us the identification of all people who were in that particular group.

Now, Senator, it is our obligation to find out the extent of the Communist strength in the United States. Specifically, in this particular inquiry, we are trying to find out the extent and strength of the Communist Party in labor unions. If this man would identify the people whom he has worked with in the past, we would be able to proceed from there and give the Senate a full answer with respect to Communist strength as it now exists in the labor union, with whatever bearing it may have on this hearing.

Senator BUTLER. You have heard the remarks of counsel. Would you be willing, under proper examination, to disclose the persons whom you know, if there are any such, who worked with you or with any persons that you know in connection with the Communist Party or its activities?

MR. SILBERMAN. Senator, I didn't get the first phrase. You said something about counsel?

Senator BUTLER. The first phrase was: Would you be willing to answer questions propounded to you by the counsel of this subcommittee in connection with your associations with Communists or persons engaged in the conspiracy, the Communist conspiracy?

MR. SILBERMAN. You are really not asking a specific question. If you will ask me the questions, I will determine what I am going to do.

Senator BUTLER. Counsel will ask you.

MR. MORRIS. Have you been a member of a Communist unit?

MR. SILBERMAN. I refuse to answer that question.

MR. MORRIS. Have you attended Communist Party meetings with people in the communications field?

MR. SILBERMAN. I won't answer that one.

MR. MORRIS. Have you attended Communist Party meetings with members who are now officials in the American Communications Association?

MR. SILBERMAN. I am not going to answer that one.

MR. MORRIS. We are not trying to find out what your present status is. The point is, you come before us, according to our testimony, a witness who was competent to testify to the extent of Communist strength in the United States, and specifically in the labor unions, and that is why we asked those questions.

MR. SILBERMAN. You have asked them and I have refused.

Senator BUTLER. Are you an officer of this union?



Mr. SILBERMAN. No.

Mr. MORRIS. Senator, I have no more questions.

Senator BUTLER. No further questions.

Mr. MORRIS. Will you have Mr. Siebenberg take the stand?

Senator BUTLER. Mr. Siebenberg, do you swear the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SIEBENBERG. I do.

### TESTIMONY OF LOUIS SIEBENBERG, NEW YORK, N. Y.

Mr. MORRIS. Will give your full name and address to the reporter?

Mr. SIEBENBERG. Louis Siebenberg, S-i-e-b-e-n-b-e-r-g; my office address is 66 Leonard Street, New York City.

Mr. MORRIS. And what is your business or profession?

Mr. SIEBENBERG. I am an officer of Local 40, American Communications Association.

Mr. MORRIS. You are the president?

Mr. SIEBENBERG. I am chairman of the local. It is the equivalent of the presidency of the local.

Mr. MORRIS. Now, how many workers are there in your local?

Mr. SIEBENBERG. Approximately 5,000.

Mr. MORRIS. Will you tell us the general jurisdiction of your local?

Mr. SIEBENBERG. My local is the bargaining agent for the employees of the Western Union Telegraph Co. in the metropolitan division; that is, the area in the metropolitan New York. We are also the bargaining agent for a group of cafeteria workers who work in the cafeteria in the Western Union Building in New York City, 60 Hudson Street. We are the bargaining agent for a group of workers for the Teleregister Corp., in Stamford, Conn., New York City, and a few scattered throughout the country.

Mr. MORRIS. You said the membership amounts to about 5,000?

Mr. SIEBENBERG. That's right.

Mr. MORRIS. And the whole membership of the international organization being 8,000, your particular local has the bulk of it?

Mr. SIEBENBERG. That is correct.

Mr. MORRIS. Senator Butler said about five-eighths?

Mr. SIEBENBERG. I think that's about right.

Mr. MORRIS. Now, Mr. Siebenberg, we have received testimony from a witness under oath that you have been a member of the Communist Party. Have you been a member of the Communist Party?

Mr. SIEBENBERG. I decline to answer that question, using my rights under the fifth amendment.

Mr. MORRIS. Are you now a Communist?

Mr. SIEBENBERG. I refuse to answer that question.

Mr. MORRIS. Are you a member of the international board, the executive board of the international?

Mr. SIEBENBERG. I am.

Mr. MORRIS. To your knowledge, are persons on that executive board of the international union members of the Communist Party?

Mr. SIEBENBERG. I decline to answer that question, using the same grounds.

Mr. MORRIS. Due to the witness' responses, I have no more questions.

Senator BUTLER. To your knowledge, is there any person who is a member of the Communist Party who has access to the international cables of RCA and Western Union?

Mr. SIEBENBERG. I decline to answer that question, Senator.

Senator BUTLER. What is the basis for your declination?

Mr. SIEBENBERG. My rights under the fifth amendment.

Senator BUTLER. Would the answer to that question tend to incriminate you?

Mr. SIEBENBERG. It might, sir.

Senator BUTLER. I have no further questions.

Mr. SIEBENBERG. All right. Thank you.

Mr. MORRIS. The next witness is Mrs. Bollinger.

Senator, the following three witnesses are employees of the—

Senator BUTLER. In the interests of time, if the witnesses are all here, we will swear them all at once.

Are these the only three remaining witnesses?

Mr. MORRIS. These are the three remaining witnesses.

Senator BUTLER. Do you, and each of you, swear the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mrs. BOLLINGER. I do.

Mr. LAGOS. I do.

Mrs. LAGOS. I do.

Senator BUTLER. The witnesses are sworn.

#### TESTIMONY OF MRS. RUTH BOLLINGER, NEW YORK, N. Y.

Mr. MORRIS. Mrs. Bollinger, will you give your full name and address to the reporter?

Mrs. BOLLINGER. Mrs. Ruth Bollinger.

Mr. MORRIS. Mrs. Ruth Bollinger?

Mrs. BOLLINGER. That's right.

Mr. MORRIS. Would you spell Bollinger, please?

Mrs. BOLLINGER. B-o-l-l-i-n-g-e-r. My address is 157 East 89th Street, Manhattan.

Mr. MORRIS. And what is your business or occupation?

Mrs. BOLLINGER. I am an automatic telegraph operator. I work what we call a perforated tape, automatic.

Mr. MORRIS. Mrs. Bollinger, you are Mrs. Carl R. Bollinger, are you not?

Mrs. BOLLINGER. That is right.

Mr. MORRIS. What does Mr. Bollinger do?

Mrs. BOLLINGER. He is an electronic technician.

Mr. MORRIS. Where is he employed?

Mrs. BOLLINGER. He is employed in the microwave research section of the Polytechnic University in Brooklyn.

Mr. MORRIS. The Polytechnic University in Brooklyn?

Mrs. BOLLINGER. That is correct.

Mr. MORRIS. What is that; what is the nature of that work?

Mrs. BOLLINGER. I haven't the faintest idea.

Mr. MORRIS. You don't know what your husband does?

Mrs. BOLLINGER. No, aside from the fact that he is an electronic technician. He never talks to me about his work.

Mr. MORRIS. Does he not talk to you about it because it is classified or because it is of no interest to you?

Mrs. BOLLINGER. No; he does his work, and that's all. We rarely discuss it. We have quite a lot of things at home.

Senator BUTLER. How long have you been married to your present husband?

Mrs. BOLLINGER. My present husband? Seventeen years.

Senator BUTLER. How long has he been engaged in the work he is now carrying on?

Mrs. BOLLINGER. Four or five years, I guess, something like that. I wouldn't know exactly.

Senator BUTLER. And he never told you the nature of his work for 4 or 5 years?

Mrs. BOLLINGER. I don't know, it's technical work; I have no technical education; I have no formal education of any kind which would make it interesting for him to discuss that sort of thing with me.

Mr. MORRIS. Will you tell us what your job is, Mrs. Bollinger?

Mrs. BOLLINGER. Yes. I am an automatic telegraph operator. I work one of the heavy circuits there; I think I told you in the executive session that we handle between 60 and 80 messages an hour. Most of them are meatpacking messages, business messages; I guess about a full 80 percent are business messages. The rest are social messages.

Mr. MORRIS. In other words, the messages coming through are mostly of a business nature and some are social?

Mrs. BOLLINGER. Oh, yes, yes, almost all of them, except for a few social messages that you get—somebody died or got married—something of that sort.

Mr. MORRIS. Are any of these destined for overseas, or any come from overseas?

Mrs. BOLLINGER. Oh, yes; of course. They are all—they must be sent through, because the Western Union landlines is the one company that sends these things through. This is the relay point from which they send messages from one company to another. This is the landline operation that are sent through to the country.

Mr. MORRIS. Now, have you ever lived on Drewsville Road, in Brewster, N. Y.? Did you ever live in Brewster, N. Y.?

Mrs. BOLLINGER. No.

Mr. MORRIS. Are you now a member of the Communist Party?

Mrs. BOLLINGER. I must decline to answer that question. I invoke the fifth amendment.

Senator BUTLER. Have you ever been a member of the party?

Mrs. BOLLINGER. I have to invoke the fifth amendment on that question; I decline to answer.

Mr. MORRIS. Now, have you been a member of the Herman Boettcher Club—

Mrs. BOLLINGER. I will have to decline to answer that question on the same ground.

Senator BUTLER. Are you an officer of your local union?

Mrs. BOLLINGER. I am a member of the executive board of my local, representing the division in which I now work. We are elected every 2 years; they conduct elections through nominating committees, and then after that there is a referendum vote and each section generally has a member on the board, represented on the board, maybe more—

Senator BUTLER. How long have you been your section representative?

Mrs. BOLLINGER. Oh, only about a year, I guess; since this last election.

Senator BUTLER. Who did you succeed?

Mrs. BOLLINGER. I didn't succeed anyone.

Senator BUTLER. You had no representation prior to your election?

Mrs. BOLLINGER. Well, they have, it is a combined—I don't know—how to explain it, how it works—well, each, the union, just like the companies, is divided into certain divisions. In the traffic division, now, the traffic division will have a certain number of representatives on the executive board, depending upon the number of people who work in that particular division.

Senator BUTLER. Did they add a new member when they put you on, or did you take somebody's place?

Mrs. BOLLINGER. Let me see how that worked. I think—this is a small area—up until now we had all the other people representing this section, just the same.

Senator BUTLER. You mean, New York is a small area?

Mrs. BOLLINGER. No, no; I don't represent New York. Let's put it this way:

I am one of the officers elected to represent the traffic division, wherever it is.

Senator BUTLER. I am interested to know who was your predecessor in that office.

Mrs. BOLLINGER. Every 2 years we have—I don't know—

Senator BUTLER. An election, and somebody is elected.

Mrs. BOLLINGER. And there are 5 or 6 people elected, and that's all there is to it, in the whole division.

Senator BUTLER. And they can't elect anybody else? You have been there for about 1 year, and they add—

Mrs. BOLLINGER. The term of office is 2 years. At the end of 2 years we will have another election, and there will be 5 more people elected in this entire division.

Senator BUTLER. Will they be different people than the ones elected before?

Mrs. BOLLINGER. If the people want it that way, of course.

Senator BUTLER. Did you take anybody's place on that board, and if so, what was the name of that person?

Mrs. BOLLINGER. I don't remember; I can't possibly tell you.

Mr. SELLY. Shall we clarify this?

Senator BUTLER. I think it is clear.

Mr. SELLY. It isn't clear.

The traffic division, so called traffic division, is a comparatively large division in the overall group that she is talking about. That group is entitled to X number of representatives. I don't know what the number is; it may be 5 or 6, or whatever it is. She was elected one of the 5 or 6 at large. That doesn't mean she represents specifically the workers at her job location; it is 5 or 6 out of the whole traffic department, which covers many physical areas.

So the most she could tell you, it is not who she replaced, but who the 5 or 6 predecessors or representatives from the traffic department were. She didn't recognize any particular individual.



Four or five—whatever it was—were elected at large from various locations.

Senator BUTLER. Is that public information, who those people are, from time to time?

Mr. SELLY. Yes. We publish a list of elected officers of the union.

Senator BUTLER. That is what I wanted.

Mrs. BOLLINGER. I am sorry, Senator; I didn't understand your question.

Mr. MORRIS. Have you ever been in Brewster, N. Y.?

Mrs. BOLLINGER. Possibly I passed through there; I don't know.

Mr. MORRIS. But you never lived in Brewster for any period of time?

(Mrs. Bollinger moved head.)

The REPORTER. Would you give me an oral answer, please?

Mrs. BOLLINGER. No.

Mr. MORRIS. Have Communist Party meetings ever been held in your home?

Mrs. BOLLINGER. I decline to answer that question, on the grounds of the fifth amendment.

Mr. MORRIS. Senator, I have no more questions of this witness.

Senator BUTLER. I have no further questions.

Next witness.

Mr. MORRIS. You have something more to say, Mr. Rabinowitz?

Mr. RABINOWITZ. No.

Senator BUTLER. I would like to ask this question:

You very emphatically said "No"—

Mr. RABINOWITZ. She was talking to the reporter.

Mrs. BOLLINGER. He asked me to give a verbal report. I had shook my head.

Mr. MORRIS. This witness has been sworn.

### TESTIMONY OF FRANK LAGOS, BROOKLYN, N. Y.

Mr. MORRIS. Will you give your name and address to the reporter?

Mr. LAGOS. Frank Lagos.

Mr. MORRIS. And where do you reside?

Mr. LAGOS. 136 St. Paul's Place, Brooklyn.

Mr. MORRIS. And what is your business and profession?

Mr. LAGOS. I am a teletype operator, or teleprinter operator, for Western Union Telegraph Co. at 60 Hudson Street, New York.

Mr. MORRIS. Will you give us a description of what your job is?

Mr. LAGOS. Well, I work in the tie lines section on one floor of the Western Union Building, and on that side of the floor I handle the tie lines; that is, private wires that are tied into the general communications system of Western Union—private companies, like Lenthéric, textile companies, in the general order of that, private users.

Mr. MORRIS. Mostly industrial rather than Government?

Mr. LAGOS. Mostly industrial rather than Government.

Mr. MORRIS. Is there any Government work at all from wires that you have access to?

Mr. LAGOS. Not generally, in my section. There is one wire only, the GSA, the General Services Administration wire, and I don't work that wire.

Mr. MORRIS. How long have you worked in this position?

Mr. LAGOS. Well, I am going into my 30th year.

Mr. MORRIS. Generally, have you had the same type of work all the time?

Mr. LAGOS. Yes.

Mr. MORRIS. Are you now a member of the Communist Party?

Mr. LAGOS. I refuse to answer that question on the ground of the fifth amendment.

Mr. MORRIS. Have you attended Communist Party meetings?

Mr. LAGOS. I decline to answer, on the same grounds.

Mr. MORRIS. I think I have no further questions, Senator.

Senator BUTLER. Are you an officer of your local union?

Mr. LAGOS. I am a member of the executive board.

Senator BUTLER. I have no further questions.

Mr. MORRIS. I might point out, I think you probably know, the testimony before the Internal Security Subcommittee is that you have, at least in the past, been a member of the Communist Party. Are you acquainted with that testimony?

Mr. LAGOS. I refuse to answer, on the same grounds.

Mr. RABINOWITZ. What is the question?

Mr. MORRIS. Do you know that there has been testimony to that fact?

Mr. LAGOS. Yes; a previous report was published, I think.

Mr. MORRIS. Was that testimony accurate?

Mr. LAGOS. I refuse to answer, on the ground of the fifth amendment.

Mr. MORRIS. I have no further questions.

Senator BUTLER. I have no further questions.

Mr. MORRIS. Mrs. Lajos?

#### TESTIMONY OF MRS. LILLIAN LAGOS, BROOKLYN, N. Y.

Mr. MORRIS. Will you give your name and address to the reporter, please?

Mrs. LAGOS. Mrs. Lillian Lajos, 136 St. Paul's Place, Brooklyn.

Mr. MORRIS. And what is your business?

Mrs. LAGOS. I am a teletype operator at Western Union.

Mr. MORRIS. How long have you been a teletype operator?

Mrs. LAGOS. About 28 years.

Mr. MORRIS. Will you give us a general description of what a teletype operator, such as you, does?

Mrs. LAGOS. Yes. For a quite a few years I have worked around the area of wires that were dress wires, jewelry wires, and just recently I have acquired the skill of working on this new switching-tape system, and that is all Brooklyn wires.

Mr. MORRIS. What is the nature of the wires in the instance you work on them?

Mrs. LAGOS. Mostly business.

Mr. MORRIS. Business messages?

Mrs. LAGOS. Yes.

Mr. MORRIS. Any Government transactions at all?

Mrs. LAGOS. There may be some, but I don't recall the members, because the tape comes in so fast that all we are interested in is finding the destination of where the message is to go to, mark the destination,

and switch it through. We couldn't even see the text of the message at all; it's all over the floor—it's that fast.

Mr. MORRIS. But you could see it if you wanted to, if you had a particular interest?

Mrs. LAGOS. I suppose so.

Senator BUTLER. It is perfectly visible; it is right there before your eyes, if you wanted to see it?

Mrs. LAGOS. Yes, sir; it is in print, but I have worked on those Brooklyn wires before, and I know that most of them are business wires. They have been transferred over.

Mr. MORRIS. Are you a Communist, Mrs. Lagos?

Mrs. LAGOS. I decline to answer that, under the fifth amendment.

Mr. MORRIS. Have you attended Communist Party meetings in the past?

Mrs. LAGOS. I decline to answer, for the same reason.

Mr. MORRIS. Are you aware at the present time there is testimony before the Internal Security Subcommittee that you had, in fact, attended Communist Party meetings?

Mrs. LAGOS. I read the pamphlet; yes.

Mr. MORRIS. Was the testimony true?

Mrs. LAGOS. I decline to answer, under the fifth amendment.

Senator BUTLER. Are you a member of the official family of the union?

Mrs. LAGOS. I wouldn't say I am an official member. I am a shop steward; I don't know whether you would call that official.

Senator BUTLER. Is that post held by an officer of the union?

Mrs. LAGOS. No, no. I am elected by the people. I have been elected, so I am not, I am not connected with the union in any official capacity.

Mr. MORRIS. Are you related to Mr. Kehoe, one of the officials?

Mrs. LAGOS. Yes; Mr. Kehoe is my brother-in-law.

Mr. MORRIS. How is he related to you?

Mrs. LAGOS. Well, my husband's sister is married to Mr. Kehoe.

Senator BUTLER. No further questions.

Mr. MORRIS. One other thing, Counsel. Mr. Kehoe did not testify here today, and your stipulation, now that the hearing is over, states his position?

Mr. RABINOWITZ. That is right.

Mr. MORRIS. Senator, we had expected to have here today, in addition to the 4 officials of the ACA scheduled to testify here on Tuesday, that hearing was deferred for the reason of Mr. Rabinowitz' request, and we had all 4 witnesses here today. That is why we had so many. Originally, we had asked Mr. Louis Goldblatt, secretary-treasurer of the ILWU, to testify. We have stipulated with that organization that he will appear here after the 1st of June, Senator. They are having negotiations on the west coast, and we deferred that, at his request.

The other witness subpoenaed today was Mr. Paul Boatin, who was the head of the Dearborn engine unit of the Ford local, of the United Auto Workers. At his request, we have given him an extension of time, and it may be, Senator, that he will testify here on Tuesday.

There are other witnesses scheduled here for Tuesday.

Senator BUTLER. Then the hearings will be recessed, subject to the call of the Chair.

(Whereupon, at 11:55 a. m., the subcommittee adjourned, subject to the call of the Chair.)

(The following press release from the Western Union Telegraph Co., relative to testimony received by the subcommittee at the above hearing, was later received and ordered into the record:)

[From the Western Union Telegraph Co.—for immediate release]

MAY 9, 1957.

Immediate suspension of three New York telegraph employees, who invoked the fifth amendment and refused to testify concerning alleged Communist Party membership before the Senate Internal Security Subcommittee at Washington, D. C., today, May 9, was announced by J. L. Wilcox, Western Union vice president.

Mr. Wilcox's notice to Mrs. Ruth Bollinger, of 157 East 89th Street, New York City, and Frank Lagos and Mrs. Lillian Lagos, of 136 St. Pauls Place, Brooklyn, follows:

"This company is gravely concerned in the protection of its service, facilities, and equipment and with safely discharging its responsibility to our Government and patrons in safeguarding the secrecy of communications entrusted to our care.

"Today, you refused to testify before the Senate Internal Security Subcommittee concerning Communist affiliations. Effective immediately, you are suspended from the active rolls of the company with pay.

"You may become eligible for reinstatement if, prior to June 15, 1957, you appear before the Senate Internal Security Subcommittee and fully answer under oath all questions pertaining to Communist affiliations and, in addition, if in the course of such testimony you do not admit being a Communist. You may also become eligible for reinstatement if, prior to June 15, you obtain from an accredited security agency of the United States a certificate or statement clearing you of being a Communist.

"If you fail to qualify for reinstatement, you will be discharged at the end of such suspension period."



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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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## HEARINGS

BEFORE THE

SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

FIRST SESSION

ON

SCOPE OF SOVIET ACTIVITY IN THE  
UNITED STATES

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MAY 13 AND AUGUST 22, 1957

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**PART 61**

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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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MONDAY, MAY 13, 1957

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY ACT  
AND OTHER INTERNAL SECURITY LAWS  
OF THE COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to call, at 2:40 p. m., in room 424, Senate Office Building, Senator Roman L. Hruska presiding.

Also present: Robert Morris, chief counsel; William Rusher, associate counsel, and Benjamin Mandel, research director.

Senator HRUSKA. The committee will come to order.

Mr. MORRIS. Senator, before proceeding with the witness for today, I would like to offer for the record two charts about the Chinese Communists on the mainland, published by the Asian People's Anti-Communist League, Republic of China, the years 1955 and 1956.

These have been transmitted by Ku Cheng-Kang who is chairman of the Asian People's Anti-Communist League, who was here on Friday and he met with at least one member of the subcommittee and with the staff and presented this, among other documents, in connection with the hearings that we have on the general nature of the Chinese Communist organization and its effects upon the United States.

I feel that I would like to offer these for the record, Mr. Chairman, and may they be printed as part of the official record together with a letter of transmittal.

Senator HRUSKA. The charts will be received, together with the letter of transmittal.

(The material referred to was printed separately under the title "Nature of Communism in Occupied China.")

Mr. MORRIS. Senator Hruska, we have here today Mr. Andrew Marton who was the Associated Press reporter in Budapest at the time of the Hungarian revolution.

As you know, Senator, the Internal Security Subcommittee has been holding a series of hearings since last October on the nature of the Hungarian revolution with a view toward trying to determine the effect that that particular historic development may have had upon the Communist parties of the United States and the rest of the world.

I think, Senator, that Mr. Marton will be, probably, almost the last witness we will have now in the series and the recommendation was made by the staff that we will now be able to proceed and write a report as a result of all this after the testimony of Mr. Marton.

Senator HRUSKA. Very well.

Mr. MORRIS. Mr. Marton, will you stand to be sworn, please?

Senator HRUSKA. Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MARTON. I solemnly swear that the testimony I am about to give will be the truth, the whole truth, and nothing but the truth, so help me God.

Mr. MORRIS. Will you give your full name and address to the stenotype reporter?

#### TESTIMONY OF ANDREW MARTON, WASHINGTON, D. C.

Mr. MARTON. My name is Andrew Marton and my present address is 2224 F Street NW., Washington.

Mr. MORRIS. And what is your business or profession?

Mr. MARTON. I am a newspaperman. I was staff reporter of the Associated Press for the last 10 years in Budapest between 1947 and 1957. After that I was assigned to the Vienna Bureau of the AP in January and February and now last month I am assigned to the Washington bureau of the AP.

Mr. MORRIS. Mr. Marton, for this reporting you have gotten the Polk award, have you not, for reporting?

Mr. MARTON. I got the George Polk award from Long Island University and I got the presidential award of the Overseas Press Club and a third award for my reporting on the Hungarian revolution. Actually, the first award, the George Polk award, I got jointly with my wife.

Mr. MORRIS. I see. Who is your wife?

Mr. MARTON. My wife is Dr. Ilona Nyilas, and she was a staff reporter of the United Press in Budapest from 1949 until 1957.

Mr. MORRIS. And she was the UP reporter?

Mr. MARTON. She was the United Press correspondent.

Mr. MORRIS. Senator, Mrs. Marton is available if the committee desires to take her testimony; but at staff level, Senator, we felt, Mr. Marton at this time could tell the story for such purposes of the work of the subcommittee.

Mr. Marton, where were you born?

Mr. MARTON. I was born in Budapest.

Mr. MORRIS. And would you tell us something about your education?

Mr. MARTON. I graduated from the Budapest University of Economics. I got two degrees, the master's and the doctor's degree in economics. From Budapest I spent some time all around Europe and was a member of the resident group of the Smallholders Party which, as you know, has been the majority political party in the Hungarian Parliament, the anti-Communist political party after World War II.

Immediately after the war the Smallholders Party published its official newspaper and I became the assistant publisher of the paper and a columnist. I also joined at the same time the London conservative newspaper, the Daily Telegraph, was the Budapest reporter of the Daily Telegraph, and in 1947 I joined the Associated Press and 2 years later I became a staff reporter of the AP.



Mr. MORRIS. That would be 1939.

Mr. MARTON. 1949; in 1947 I joined the AP and in 1949 I became a staff reporter. During this time I covered all the major political trials in Hungary.

Mr. MORRIS. Did you remain a member of the Smallholders Party during that period?

Mr. MARTON. I beg your pardon?

Mr. MORRIS. Did you remain a member of the Smallholders Party during that period?

Mr. MARTON. I was not a member of any political party.

Mr. MORRIS. While you were a reporter.

Mr. MARTON. Yes.

Mr. MORRIS. Were you arrested at all by the Hungarian Communist regime, Mr. Marton?

Mr. MARTON. When Mr. Rakosi made his rather spectacular comeback in 1955, January, some weeks later, in February, I was arrested; 4 months later my wife was arrested.

Mr. MORRIS. This is after Mr. Rakosi made his, as you say, spectacular comeback in the year 1955?

Mr. MARTON. I call it a rather spectacular comeback. He ousted Imre Nagy. Imre Nagy took over actually on July 1, 1953, and he in a most dramatic way proclaimed the "new look" policy in Hungary. The same Imre Nagy who is now in exile in Rumania, if not in a prison somewhere.

That was 1953. He made the mistake to tolerate Mr. Rakosi in the background and Mr. Rakosi took the first opportunity to oust him.

As you may remember, Mr. Nagy was purged from the Communist Party, accused with writers' deviation and all sorts of things, and Mr. Rakosi was firmly back in power. That was early 1955 and simultaneously I was arrested. Four months later my wife was arrested.

Mr. MORRIS. And for how long did you stay incarcerated?

Mr. MARTON. I was "only" 18 months in prison. I was sentenced to 13 years imprisonment and later a court of appeals reduced this term to 6 years in prison. Then, during the more liberal atmosphere of the prerevolution months, in August 1956, I was pardoned and set free as so many other political prisoners in Hungary. I was accused openly with having been the master spy of the United States of America. All since 1945, since World War II.

Mr. MORRIS. Now, did you subsequently learn from an authoritative source or certainly a credible source, the real reason for your arrest?

Mr. MARTON. I did.

Mr. MORRIS. At that time, Mr. Marton?

Mr. MARTON. I did.

Mr. MORRIS. What did you learn it to be and to what extent can you tell us, having in mind the source of your information, to be the reason for your arrest?

Mr. MARTON. The theory is the following:

During the revolution, gates of the secret police in Budapest were wide open and I and so many others could get hold of an amazing amount of information. So I learned why I, and later my wife, was arrested.

Mr. MORRIS. In other words, evidence became available during the few days that the—

Mr. MARTON. Of freedom.

Mr. MORRIS. Of freedom.

Mr. MARTON. A certain Colonel Ivanzov——

Mr. MORRIS. Is that his last name?

Mr. MARTON. I have only one name and that is his name. Colonel Ivanzov, who is a colonel of the NKVD, the Russian secret police, came in January 1955 from Moscow with specific orders that I should be arrested. The reason was that Moscow wanted to stage a show trial before the Geneva Summit Conference, a show trial with me as defendant No. 1 in the dock, unmask the United States of America in the usual way, and specifically to prove how the United States of America influenced Imre Nagy in proclaiming the New Look and trying to establish, let us call it, a more liberal atmosphere in my country.

Actually, during the 4 months of, let's call it, the first period of my arrest, I was convinced that Mr. Nagy was in a neighboring cell somewhere in the prison because the way I was interrogated and questioned every day for many, many hours, I had to assume that he will be with me together in the dock.

Mr. MORRIS. Now, you were arrested in what month?

Mr. MARTON. In February 1955.

Mr. MORRIS. That was to say, 4 months before the Geneva Conference.

Mr. MARTON. That was 4 months before the Geneva Conference. And may I remind you, Mr. Nagy was forced to retire just 1 week before my arrest and purged from the Communist Party sometime since spring when I was ordered imprisoned.

Now, this was the Moscow plan. I think it is pretty obvious why they wanted to do it. It would have given Mr. Khrushchev a good chance to attack Mr. Eisenhower the first time he met him in Geneva, saying, well, look, we are innocent lambs and you have this man Marton spying on us in Hungary.

Now, why this plan was dropped, I do not know, but it was dropped and Moscow informed Budapest that we are no more interested in Marton and his wife.

Of course, the Hungarian secret police couldn't just say we are sorry; you can go home. They hesitated for months what to do with us. I was arrested in February and we were tried in November, which is a very unusual thing. May I remind you that Cardinal Mindszenty was arrested in December and was tried in February.

Foreign Secretary Rajk was arrested in May and was tried in October. The preparation of my trial and the trial of my wife lasted from February to November, which is very unusual, and the only reason for that is that they just didn't know what to do with us.

So, finally we were tried in camera. There was no show trial and, as I told you, my wife was sentenced to 6 years and I was sentenced to 13 years in prison.

Then, in 1956, the summer of 1956, when every sign indicated something will happen soon, and finally, Mr. Rakosi was ousted the second time and I hope the last time, and in July 1956, months later, I was freed. I was pardoned.

Mr. MORRIS. Now, was there anything that occurred during the term of your imprisonment that you feel could be helpful to the United

States Senate Internal Security Subcommittee, of the methods of operation, the methods of the secret police?

Mr. MARTON. I don't think I can tell you anything new in that respect. May I refer to a small booklet written by Arthur Koestler who, incidentally, was born in Hungary, Darkness at Noon. It is enough to read that. You know everything about the methods, how they can break a man even without touching him with a finger. It is a fact that after 1953, after Stalin's death, when so called legality was restored in Hungary and also in the other satellite countries, they don't use physical torture. I had the opportunity to talk with dozens of foreign political prisoners during the revolution who were freed before or during the revolution and they all confirmed that. But there are hundreds of other methods to break a man, especially if he has a family, and I had my wife and two children still free.

So, it is the easiest thing to say, all right, if you don't confess in the way we want you to confess, your wife will confess. What can you do?

Mr. MORRIS. Now, Mr. Marton, you were, therefore, a free man when the October uprising occurred?

Mr. MARTON. I was.

Mr. MORRIS. Now, was there anything in particular—you were a reporter on the spot at the time. As you know, I think I have called to the attention of this witness—he knows something about them—that we have held a long series of hearings with many of the people who participated in that uprising, and without covering any of that ground, I wonder if there is anything you can say about that revolution generally, Mr. Marton, that you think would be helpful to the United States Senate in understanding the nature of the revolution or the course it took.

Mr. MARTON. Yes, sir. Of course, you were kind enough to tell me earlier that you have ample evidence and many testimonies. So I don't want to repeat the history, because it is already history, of what happened there.

I had the privilege, and it was a privilege, indeed to cover the revolution for the Associated Press from the very first day until the end of it. Now, what I would like to emphasize, which I am afraid was not stressed in our reports—our, I mean, the reports of correspondents over there—how the Russian Empire, the Soviet Union, whatever you may call it, was prepared that something will happen. May I recall that the Russian tank units the first time arrived in Budapest at 4 o'clock in the morning, October 24.

The revolution itself started with a peaceful demonstration of people on Budapest streets between 2 o'clock and 3 o'clock in the afternoon, October 23.

According to all military experts—I am not a soldier, I quote them—these tank units arrived in Budapest coming from various bases in Hungary. The fact that they arrived at 4 o'clock in the morning meant that they were rolling toward the Hungarian capital at 2 o'clock in the afternoon, October 23, before anything started in Budapest, which again meant that they were alerted the latest at noon October 23.



Anybody who is familiar with army affairs and how they work can judge it certainly much better than I do, that they knew something was cooking or they were prepared.

On November 11 or 12 I met two Russian Army officers, young soldiers who spoke some German. They came with those reinforcement troops that attacked Budapest the second time, November 4. They came from Rumania and Bessarabia and they both told me that their troops were alerted on October 21, 2 days before the Hungarian revolution got started.

I consider these facts, because they are facts, rather significant without venturing to draw any conclusions.

Mr. MORRIS. May I break in there, Mr. Marton, to ask a question?

Mr. MARTON. Yes, sir.

Mr. MORRIS. Much evidence has been given to the subcommittee the effect of which was that this revolution was more or less spontaneous.

Mr. MARTON. It certainly was.

Mr. MORRIS. What you say at first blush might indicate something to the contrary.

Mr. MARTON. I don't think it does. Anyone who witnessed events in Hungary before the revolution, I would say, since May, June, I, myself could witness it only since August when I was released from prison, but I was briefed, when I was released, by my wife and many friends.

So, anyone who witnessed the events which were properly reported by many newspapers and the Petoefi Circle——

Mr. MORRIS. Just describe for the record what that was.

Mr. MARTON. The Petoefi Circle was sort of a club of young intellectuals, university students, writers, journalists in Hungary. In fact, those elements who sparked the Hungarian revolution.

This was going on since the spring of 1956, and when I say that the Russians were apparently prepared to intervene, I mean to say only that they knew that, to use the expression, something was cooking. Something was there. Nobody could foresee that there will be a revolution but something might happen any minute. That, we all knew.

Mr. MORRIS. And for that reason you feel there is not necessarily a conflict between the fact that the Soviet——

Mr. MARTON. No.

Mr. MORRIS. The Soviet seemed to be alerted.

Mr. MARTON. The official version, according to the official version, the Russian troops were requested to intervene to assist the Communist government of Hungary in subduing the revolution.

Now, if you will watch carefully this timetable, I think you will agree with me that there was simply no Hungarian Government which requested anything like that. The Russians came because they were an occupying power and because they thought it was in their interests to come. They didn't ask for any request to intervene.

The Russian tanks were rolling between noon and 2 o'clock, October 23, the time when Prime Minister Hegedes and the Communist Party first secretary, Gero, were still on the train coming from Belgrade, as you may remember, to Budapest.

It was practically no possibility for them to ask for Russian interference.

Senator HRUSKA. From what points did the tanks proceed?



Mr. MARTON. Various points within Hungary as far as I recall. There were about eight bases in Hungary but, as you know, Hungary is a small country and the farthest point couldn't be more than 400 kilometers, which is about 300 miles from Budapest.

Mr. MORRIS. Now, Mr. Marton, could you tell us something of the present situation in Hungary?

Mr. MARTON. Yes. I had been in Vienna until the 1st of April and since I am here, I got several reports from people I trust and these reports, of course, do not come through normal channels. They contained a detailed situation of the present situation in Hungary.

Now, there is no doubt, I think, that one can say that a handful of people—Kadar, the present Premier, and this handful of people who are behind him on the one hand, and there are 10 million Hungarians, a nation unified apparently as never before in its thousand-year-old history, on the other side.

Now, there is no doubt about it, that all methods of the darkest period of Stalinism in Hungary were restored. These include the dreaded method of internment which is arrest without trial. Internment camps were reopened all over Hungary and according to these informations I got, they are just packed with people. So are the prisons.

They restored the system of what they call banishment of people, of unreliable or undesirable elements, which means deportation to the countryside. All measures of the Stalinist period which got abolished by Imre Nagy in and after 1953, when he proclaimed the new look policy in Hungary.

According to a letter I just got yesterday, practically all political prisoners who were freed before or during the revolution are back in the prisons again.

This is one side of the matter. The other side is those 10 million Hungarians. Now, in this respect I want to call your attention to something which I consider most significant and that is the Hungarian revolution achieved one thing, maybe more, but this is a fact.

The Hungarians do not fear any more, and fear, as you will agree with me, is the basis of every totalitarian system in general and every Communist state in particular. They do not fear. They realized during the revolution that they can trust each other. They are not alone. There are 10 million all right. And they can lick the secret police, and they did it, and they can lick the modern armor of a great power and they did it.

Now, this I consider a fact of greatest importance. I had similar reports from Poland.

Mr. MORRIS. You say the same absence of fear prevails in Poland?

Mr. MARTON. Yes. In Poland. Not in the other satellite countries.

Mr. MORRIS. What is the basis for its existence in Poland?

Mr. MARTON. I think we can safely say that there are only two people in central Europe among the satellite nations who can revolt and can resist. These are the Poles and the Hungarians. That is my private opinion. I am not an objective observer in this respect because I am Hungarian myself. But the history of last fall has proved this.

We always knew it and events of October and November, I think, have proved this.

Mr. MORRIS. Do you find that there has been any shaking of confidence in the West?

Mr. MARTON. I wouldn't use this term, Judge Morris, but certainly the people do not hope for tangible help from the West any more. They still consider the West as their only friend. They still do not understand why there was no help whatsoever. But they certainly hope that when the day comes next time there will be some help from your part.

Senator HRUSKA. Let me ask you, in that regard, they are disappointed and they cannot understand why no help was forthcoming to them in the revolution of last fall. What type of help would you say they expected to come, or would like to have had come?

Mr. MARTON. Mr. Chairman, I can quote only what we journalists call the man in the street, and I would like to quote him because I had opportunity to talk with the man in the street, the simple man in the factory, day after day, I and my colleagues in Budapest, during and after the revolution, for weeks.

Now, if I wanted to simplify things, I could quote one saying—I asked him actually the same question. What do you expect? And the answer was, they expected you to do something but you did nothing.

Now, that is a simplification of things. But I think it depicts somehow a feeling of many, many Hungarians in that time.

Now, I asked them, all right, but specifically what could the West have done. And they had a rather long list starting with retaliation in the diplomatic field.

Mr. MORRIS. Retaliation of what?

Mr. MARTON. In the diplomatic field. Retaliation in the economic field.

Mr. MORRIS. In other words, retaliation in the diplomatic field, withdrawing diplomatic representation.

Mr. MARTON. Yes. Or they said, why does the United Nations accept representatives of Kadar? Who is Kadar? Kadar became a Prime Minister of Hungary illegally, even according to the Hungarian Communist constitution. Why does the United Nations not kick out the representatives of Kadar? Don't kick out Hungary. Let the seat be empty. But why do you accept his people? We were asked when Nagy proclaimed the neutrality of Hungary—I think it was November 1—why didn't the ambassadors of the Western Powers go to the Kremlin the next day and tell Mr. Khrushchev or Mr. Bulganin or whoever there was that our country accepted Mr. Nagy's proclamation? We consider Hungary a neutral country and we advise you to do so.

They asked us why didn't Mr. Hammarskjold come forward? Why did he obey Mr. Kadar's order not to come? Who is Mr. Kadar, to boss him around? Why didn't he come? I can quote an old worker who asked me: This man has no guts; why is he the Secretary General of the United Nations?

Did I answer your question, sir?

Senator HRUSKA. Yes. Now, then, was that as a result of inquiries at that time, at the time of the revolution, these things you are telling?

Mr. MARTON. Yes. During and after the revolution.

Senator HRUSKA. Now, you say they are hopeful that when next they arise there will be some help of some kind. What have they in mind in the future that can be done by way of help to be extended from the western nations?

Mr. MARTON. Let me say, Mr. Chairman, that very few people—naive, maybe—hope for United Nations armies arriving, being parachuted to Hungary during the revolution. Very few. More, but still few, hope for arms. They didn't care how they were to come, or the neutrality of Austria, and so forth, and so forth, but they were hopeful. Most people hope that the West—and when they say the West, of course, they mean the United States—will bang the table and will say, now, we consider Hungary a neutral, independent, sovereign country which can choose Nagy as its premier, would choose a multi-party system, and to behave. That is what the majority of the Hungarians hope for, and apparently that was not done or not done to such an extent what the Hungarians hope for.

Of course, there was another thing, the stab in the back, Suez. That was something which the Hungarians never could understand. How and why some western powers used just this moment to attack Egypt and, therefore, give a good excuse for the Soviet Union to come back with a force. So, everyone, I think, who was in Hungary that time, it was obvious that this encouraged the Soviet Union to come back. The Russians pulled out from Budapest——

Senator HRUSKA. When?

Mr. MARTON. No doubt about that. The last days of October. There was not a single Russian soldier, not a single Russian tank in Budapest the first days of November. Why did they pull out? I can't answer this question and apparently nobody can, but it is a fact. It is a fact that they came back on November 4, and meanwhile there was Suez.

Senator HRUSKA. Do you think there was any cause-and-effect relationship between the two?

Mr. MARTON. I am convinced of it, and so are the Hungarians.

Senator HRUSKA. What reaction among the Hungarians did the United States position have, insofar as the invasion of Suez was concerned? How did they accept it? What were their views on it?

Mr. MARTON. They said, "Well, here we are. Great Britain, France obey the United Nations and the Soviet Union does not. Why do you tolerate that?" I quote that. Those are not my words.

Mr. MORRIS. Have you another question, Senator?

Senator HRUSKA. Not at this time. Go ahead.

Mr. MORRIS. I was just wondering if you were pausing for questions.

Senator HRUSKA. I have some more questions, but if you have something——

Mr. MORRIS. I was going to offer for the record, Senator, your letter to the Assistant Secretary of State, dated April 25, 1957, which is on the subject of Hungary, and I think, Senator, it would be most appropriate in the record as of this time.

Senator HRUSKA. Very well; it will be received and incorporated into the record.

(The letter referred to was marked "Exhibit No. 463" and reads as follows:)

EXHIBIT No. 463

APRIL 25, 1957.

HON. ROBERT C. HILL,

*Assistant Secretary of State for Congressional Relations,  
Department of State, Washington, D. C.*

DEAR AMBASSADOR HILL: I appreciate the courtesy of your reply to my letter about the activities of the Food and Agriculture Organization in Hungary. How-



ever, since FAO has just issued another press release stating that they are continuing with the Hungarian project, I feel I must write to you again.

It may interest you to know that this latest press release was put out in Rome and several other cities around the world, but was withheld in Washington by order of the head of the FAO office here. This action appears to be an attempt by the FAO staff to forestall further inquiry from the United States Government or the Congress about this questionable undertaking.

In spite of the careful explanation contained in your letter, I am still far from satisfied that FAO's mission will not substantially alleviate one of the major economic problems facing the puppet government of Janos Kadar. In fact, the FAO press release, which caused me to write to you in the first place, contains the following statement:

"The agricultural portion of the report emphasized that the estimates of aid needs were aimed primarily at maintaining the agricultural production apparatus in the interest of insuring future food supplies. Examination on the spot and discussions with the Hungarian authorities have shown that the supply of seeds, feeds, and fertilizers is the most effective way of accomplishing this goal."

No matter how I read those words, they still mean that FAO's purpose in Hungary is to prop up the agricultural economy. Apparently, the Communist oppressors agree with me that using FAO's services to obtain gifts of seeds, feeds, and fertilizers from other countries to insure their own future production "is the most effective way of accomplishing this goal."

The long-range economic purpose of the FAO mission is emphasized still further by the following statement in their report:

"It is, moreover, essential that every effort should be made to raise agricultural production in 1957 to the highest possible level, especially crop production. The events of recent months have held back fieldwork, in particular the autumn sowing of cereals. If this lost time cannot be made up, the insufficiency of national supplies would not only prevent Hungary, which in the past has been a traditional exporter of agricultural products, from maintaining its flow of foreign trade during the coming year, but would also prolong its dependence on external sources of supply."

Somehow, I cannot reconcile the worldwide wave of sympathy for the Hungarian people, which gave rise to U. N.'s "humanitarian resolution," with FAO's apparent concern to "maintain the agricultural production apparatus" for the Communist authorities, who are able to hold the Government of Hungary against the will of the people only because they are backed by the presence of a dozen divisions of Russian troops. Neither do I agree that "maintaining (Hungary's) flow of foreign trade during the coming year" will do anything but strengthen the Kadar government.

The humanitarian resolution of the U. N. General Assembly, which, you say, prompted FAO's entry into Hungary, referred to the "suffering of the Hungarian people." According to the FAO report, lack of food played no part in the suffering. In fact, the report says:

"At the time when the mission was carried out, the food situation in Budapest (and, it seems, in other large cities) was, on the whole, satisfactory. The basic commodities, bread and milk, were obtainable without rationing. \* \* \* The price levels fixed before October have been more or less maintained for the essential foodstuffs. \* \* \*

"Meat is plentiful at present in Budapest and, probably, throughout the country. Slaughterings have been accelerated, especially of pigs, on account of the insufficient supplies of feeding stuffs. Since storage facilities are not such as to accommodate all the available quantities, arrangements have been made to utilize cold stores in neighboring countries. \* \* \*

"These stocks will, in part, make up for the shortfall of meat production which will occur during the summer (after the end of May). \* \* \*

"Certain traditional exports of Hungarian produce (poultry, for example) will have to continue in order to fulfill trade commitments already made and to pay for the planned imports of basic foods."

In other words, it is clear from the above that FAO went into Hungary on the pretext of assessing emergency food needs of suffering people, but, after 3 days of consultation with the Kadar authorities, produced a set of proposals aimed at restoring for the dictator government any damage done to the agricultural economy when the people got out of hand last fall.

I am glad to learn from your letter that the United States took exception when the FAO secretariat circulated various countries in Western Europe to locate sources of seed grain, feed grain, and fertilizer available for donation



to Hungary. However, judging by the FAO press release just issued everywhere but Washington, the opinion of the United States Government did not sufficiently impress the secretariat to put a stop to the program.

In view of the fact that the United States is a member of FAO and Hungary is not, and that the United States contributes the largest share of the FAO budget while Hungary contributes nothing, what justification is there for the FAO secretariat to provide service to the Hungarian Government over the protests of the United States Government?

According to the constitution and rules of FAO, the money appropriated by the member governments can be spent by the secretariat only for work which is examined, approved and budgeted by the governments. There was no such examination or approval in advance of the Hungarian mission. The secretariat seems to have undertaken this activity entirely on their own initiative. Furthermore, if the secretariat explanation to you is correct that they went into Hungary in response to resolutions passed in the U. N. General Assembly, then the fact is that they not only acted without authority of their own governing body, but they acted in defiance to it.

Documents submitted to the Senate Internal Security Subcommittee by the major United States farm organizations 2 years ago include a number which show that each time the issue of U. N. control of FAO work has come up, the governments of FAO have emphatically rejected the idea that FAO programs can be decided by anyone other than the governments which are members of FAO. The following quotations from a statement by the United Kingdom delegate during the 1951 FAO conference, which incidentally was overwhelmingly supported by other governments, will illustrate the point:

"The delegate of the United Kingdom cannot accept such an amendment. The effect of it would be to bind this organization automatically, and in advance, to accept recommendations of the General Assembly of the United Nations in the context of uniting for peace. \* \* \*

"\* \* \* I must emphasize most strongly that the Food and Agriculture Organization is an independent agency and is at the moment only bound automatically to cooperate with the United Nations to the extent of its undertakings in the agreement which it negotiated freely \* \* \* Under them, this organization is not obliged to accept as binding resolutions of the General Assembly.

"If we now adopt wording in this draft to the effect that FAO will cooperate—that is to say, must cooperate—with requests of the General Assembly, then we shall be placing an additional obligation on the organization. We shall also be renouncing a measure of its independence—and that in a sphere of controversial policies—a sphere which is foreign to the purpose and ideals which we are here pursuing. The United Kingdom delegation thinks that to bind this organization in this way is both unnecessary and unwise.

"Furthermore, for very good reasons, on which I need not elaborate this afternoon, resolutions of the General Assembly are not binding on individual members of the United Nations; they are, in fact, merely recommendations.

"If we are to adopt a resolution which pledges FAO automatically to accept as binding recommendations of the General Assembly \* \* \* then we shall be obliging member nations to accept as binding in the vital field of food and agriculture recommendations which, as individual members of the United Nations, they are not bound to accept.

"\* \* \* it has been the practice for the various agencies to take action in accordance with the special interests and circumstances of each one of them. Indeed, the World Bank and the International Monetary Fund, dealing in important spheres of capital and finance, both adopted resolutions in which they undertook to do no more than have 'due regard for' recommendations of the General Assembly. \* \* \*

"\* \* \* It would be an act of peculiar rashness for us here today to sacrifice unnecessarily such an important principle and the right of this Organization to examine critically the recommendations of another body, in return for which we should gain nothing. \* \* \*

I have quoted rather fully from this statement to emphasize that the FAO secretariat had no authority whatsoever to spend FAO's money merely because the U. N. General Assembly passed a resolution appealing to members of the U. N. to take certain action. Because the FAO secretariat did so anyway, the United States taxpayer now is in the unfortunate position of having paid 31.5 percent of the cost of providing agricultural and economic assistance to the very group in Hungary whose actions have outraged him and shocked the whole civilized world.

Moreover, the American taxpayer was given no opportunity to be represented when the FAO secretariat took it upon themselves to spend his money to help the Hungarian "authorities." His Government was not consulted, either directly or through any of FAO's executive bodies. Therefore, it seems only right that the United States Government should at this point demand a complete financial accounting of every cent spent by the secretariat on this unauthorized Hungarian mission, including pro rata salaries, travel, and expenses of every person involved. The accounting should cover the trips of the man who went to Austria and Switzerland in December, the two men who went to Budapest in January as part of the U. N. joint team, the several people who traveled around Western Europe to solicit seeds, feeds, and fertilizers for Hungary, and the staff sent to Hungary to handle sales to Hungarian farmers of items which were donated by other countries.

Perhaps the FAO staff have been able to liberate themselves from controls by their member governments. But the employees of the United States Government are still the servants of the people and, as such, are required to report to the people through the Congress on how the tax money is spent. It is for this reason that the United States delegation to FAO should find out and tell the Congress immediately how much FAO's mission to Kadar Hungary has cost the United States taxpayer.

As before, a copy of this letter is being sent to the Senate and House Appropriations Committees.

Sincerely yours,

ROMAN L. HRUSKA,  
*United States Senator, Nebraska.*

Mr. MORRIS. I have shown this letter to the witness this morning—to Mr. Marton—Senator, and I think he is in a position to answer some questions, if that is your wish.

Senator HRUSKA. That would be very fine.

Mr. MORRIS. Have you read this letter of Senator Hruska to the State Department?

Mr. MARTON. I certainly did, sir, and, Mr. Chairman, I personally very much agree with what you said here in this letter. Moreover, and this is far more interesting: Before I left Hungary I had the opportunity to talk with several anti-Communist political leaders of my country on this matter, not FAO specifically, but on any kind of aid the West might consider to give Hungary, and they all said that it would be nonsensical to prop up the Kadar government with any kind of economic aid.

Now, there is, of course, these humanitarian angles and nobody will understand that better than the people of the United States. This is another thing. But this is a task of the International Red Cross. They have the organization, how to do it, how to find out when there is a lack of food,—I personally don't think there is—and according to my information there is none, or a lack of, let's say, some kind of medicine, and I am inclined to believe that there is one.

They are here to distribute such aid.

I would like to recall when in 1953 and 1954 the United States of America sent aid for flood victims in Hungary. I was present a few weeks before my arrest when this aid was distributed among the victims of the flood and I can testify that the people received this aid which was known—on every sack there was a huge inscription "The aid of the people of the United States of America." But as you said, sir, to send feed and fertilizer, and I don't know what, through FAO—

Senator HRUSKA. Machinery and equipment.

Mr. MARTON. Machinery—this would be only to support a Communist government, a Communist government of this kind. Senator

Kennedy, some days ago, addressed the Overseas Press Club on the night when I received their award and he said that there were more shades—I don't quote him, but as far as I recall, there are more shades of gray between black and white when talking about Communist countries, and I agree with him.

Now, Poland certainly is gray today. And I personally—you didn't ask me, but I use this opportunity—I think that you should aid Poland because Poland is gray and with aiding Poland you can prevent Poland being black again. But Hungary undoubtedly is black, as black as it can be. So I agree a hundred percent, Senator, with whatever you wrote to Mr. Hill in this respect. And as I told you, this was the firm belief of about six leading Hungarian anti-Communist politicians.

I had opportunity to talk about this question before I left Hungary. They said don't help Kadar in any respect. If you want to help the Hungarian people, use the Red Cross.

Senator HRUSKA. Did you make inquiry as to the extent of the help that came through the FAO and the efforts which are referred to in that letter of April 25?

Mr. MARTON. I couldn't. I couldn't find time.

Senator HRUSKA. You couldn't find it.

Mr. MARTON. No.

Mr. MORRIS. Senator, in that connection I also have the answer of Mr. Hill dated May 10, 1957. May that go into the record, also?

Senator HRUSKA. That may also go into the record.

(The letter referred to was marked "Exhibit No. 464" and reads as follows:)

EXHIBIT No. 464

DEPARTMENT OF STATE,  
Washington, D. C. May 10, 1957.

HON. ROMAN L. HRUSKA,  
*United States Senate.*

DEAR SENATOR HRUSKA: Receipt is acknowledged of your letter of April 25, in regard to certain activities of the Food and Agriculture Organization in Hungary. A member of the staff of the Bureau of International Organization Affairs telephoned your office to state that certain additional information which you requested is being obtained. This will confirm the fact that a fuller reply to your letter will be available shortly.

Sincerely yours,

ROBERT C. HILL, *Assistant Secretary.*

EXHIBIT No. 464-A

DEPARTMENT OF STATE,  
Washington, D. C., June 20, 1957.

HON. ROMAN L. HRUSKA,  
*United States Senate.*

DEAR SENATOR HRUSKA: Further reference is made to your letter of April 25, 1957, to which I sent an interim reply on May 10, indicating that the Department of State had requested from the Director General of the Food and Agriculture Organization of the United Nations the information which you asked for concerning the costs of the RAO mission in Hungary in January, and certain more recent activities of FAO staff members in Hungary. The Department has now received the following information from the Director General:

"In the course of the action taken by FAO to assist Hungarian farmers a sum of \$3,406.49 was spent on travel costs; \$1,088.90 on communications; and a payment of \$111 made to an outside expert for technical advice in connection with



the seed potatoes supplied for use by Hungarian farmers. This represents a total expenditure of \$4,606.39."

In response to the request for an estimate of the amount represented by pro rata salaries of those officers who participated in the relief action, the Director General states that it would be difficult to make any estimate as the FAO staff is always engaged on a wide range of duties. He points out that, even in the case of those who visited Hungary in connection with the relief action, traveling via Geneva and Vienna, the opportunity was taken by them to attend to other official duties in Switzerland and Austria. He expresses the view that he feels it unwise and misleading to attempt to allocate salary costs to particular projects as FAO's program is a coherent whole, and indicates that "It has been fully recognized by the Committee on Financial Control and other bodies that costing on a project basis is an unnecessary and undesirable undertaking."

In transmitting this information to you, I feel obligated to call to your attention a request of the Director General which reads as follows:

"\* \* \* I am very anxious to be as helpful as possible and I am therefore supplying the following information regarding the relief action which FAO took in Hungary on the understanding that the information is required by the United States Government and that it will not be published."

The Director General has been informed that we are passing this request on to you, but that under the United States system of government the executive branch is not in a position to make a commitment on behalf of a member of the legislative branch insuring that the Director General's request will be met.

There appear to be three other central points in your letter of April 25 to which the Department should address itself even though you have not specifically requested further information on them. These are:

1. Whether the FAO action in Hungary substantially alleviated one of the major economic problems facing the puppet Kadar regime (p. 1, par. 3).

2. The effect of the views expressed by the United States Government on the program of the FAO (p. 3, second full paragraph); and

3. The view that the FAO Secretariat acted in defiance of its governing body (p. 4, third full paragraph).

As indicated in my letter of March 18, it is felt in the Department of State that the FAO action clearly "went beyond the declared intent of the relevant GA resolutions." The FAO action was undertaken on the assumption that the problems of recovery and relief could not be logically separated and therefore shortages and hardship which it was anticipated would confront the Hungarian people in midsummer could most effectively be met by stimulating production rather than through direct relief. The conclusion was logical but the Department did not and does not concur in the assumption. It regarded the action as going beyond the intent of the General Assembly appeal, and considers that the distribution of seed may have contributed in a limited degree to the recovery of the general economy of Hungary. The total quantities actually distributed amounted to 7,000 tons of seed, barley and oats which were donated by the Federal Republic of Germany. However, this seed was distributed through the International Red Cross and went to some 100,000 Hungarian peasants individually and in a manner to minimize the political importance to the Kadar regime.

Regarding the second point above, the Department is convinced that the questions raised by the United States Government were very seriously considered by the Director General of the FAO. In this connection, it is our understanding that following representations made by the United States, the FAO made no further appeals and limited its continuing activities to the administration of the program which already had been initiated. On this point, the press release of March 28, to which it is assumed you refer in the second paragraph on page 3 of your letter, is not regarded as an additional appeal on behalf of FAO's activities but as reporting a response to the earlier appeal made prior to the representations of the United States.

Once FAO had initiated the project it did not seem in the interest of the United States Government to protest the later phase of FAO activity, which was designed to prevent control by the Kadar regime and the misuse of supplies for political purposes. It is understood that the FAO supervision team that was cooperating with the International Red Cross, began its activities in mid-February and terminated them by mid-April. The maximum number engaged in the FAO supervisory program at any one time, was four.

Appropos of this question of FAO responsiveness to the United States viewpoint there is every indication that in the light of the position taken by the United States in the Hungarian case, the Director General of the FAO has more recently,



in the case of contemplated relief action in Morocco, meticulously observed the United States view. After investigating the situation upon the request of the Moroccan Government, he has submitted the issue for action to the FAO Council now convened in Madrid.

In commenting on the matter of defiance of the governing body of the FAO Secretariat, you refer to the fact that the governments, members of the FAO, have rejected the idea that the FAO programs can be decided by anyone other than the governments that are members of the FAO. The Department is in full agreement with this position. However, the legality of the FAO action in Hungary is not based on the question of its responsiveness to a United Nations appeal, but is to be found in Resolution No. 15 adopted at the sixth session of the FAO Conference held in 1951 (text enclosed).

The FAO Secretariat has indicated that the Director General's action was permissible under this resolution: inferentially because it refers to his discretion in convening a meeting of the Council or interested governments. As indicated previously, the Department considers that the action appeared to be outside of the FAO's "terms of reference:" i. e., in conflict with this resolution, and that his discretion is limited to a convening of the Council or of the interested governments and does not extend to initiating emergency action upon his own initiative. However, the Department does not consider his action as one of intentional defiance of the governing body.

It is hoped that you find this letter of assistance and fully responsive to yours of April 25.

Sincerely yours,

ROBERT C. HILL, *Assistant Secretary.*

#### RESOLUTION NO. 15—FOOD SHORTAGES AND FAMINE

##### The Conference Resolves:

1. That on receiving intimation from a Member Nation or region that a serious food shortage or famine exists or is likely to develop, which it is unable to cope with from its own resources, the Director-General shall depute one or more FAO officials to investigate the nature of the problem with the consent of the government concerned and to report on the extent, if any, of international assistance needed and communicate the report to the United Nations and the interested Specialized Agencies:

2. That when, in the opinion of the Director-General, there is an emergency requiring international relief measures, he shall at his discretion convene forthwith a meeting of the Council or of interested governments to devise the most practical lines of action which may be required to bring about prompt, concerted and effective assistance by governments as well as by voluntary agencies; and that the Director-General shall thereupon report the action taken to the Secretary-General of the United Nations for transmission to the Economic and Social Council.

Senator HRUSKA. Mr. Marton, some time ago it was the thinking of some of the witnesses who were here—and I imagine it is probably 3 or 4 months ago, now—that there would come a time sometime yet this year, when a renewed effort would be made to revolt.

What is your thinking on that at this time?

Mr. MARTON. I would not venture to predict the time, but let's put it this way. Whenever Kadar relaxes and thinks the time has come to relax, then the Hungarian people will revolt. When he thinks that he is firmly backed, his position, nothing can happen to him, then the Hungarian people will rise up again. Whether this will be this year, next year, or when, I do not know.

Senator HRUSKA. Do you think there will be an effort made to await a time when there can be reasonable success of the effort? Will that enter into the thinking of those who might revolt?

Mr. MARTON. Sir, the Hungarian revolution was—you, Judge Morris, used this word, and you couldn't choose a better one—entirely spontaneous, an entirely spontaneous thing, and I feel sure that it will be spontaneous again. There was no planning whatsoever, and there

won't be any planning next time. It will be spontaneous again and, therefore, I think it will be too bold to venture to predict any time. The time will come again when people will say, "We are fed up; we just can't go further"; and something will spark it again. What, I do not know. And when, I do not know.

Senator HRUSKA. Is there an organized underground in existence and effective now?

Mr. MARTON. There is none. There is none. There was none. The Hungarians are somehow—take the Poles. They have a tradition in conspiring in underground and plotting. Not the Hungarians. The Hungarians have a tradition in revolting against a power that tries to suppress them. They revolted against the Hapsburgs more than a hundred years ago, but there was no planning. There was no underground in 1848. There was a revolt of the people, and so it was last fall.

However, there is another thing. The geographical position of Hungary just does not tolerate an underground movement. It is a plain country without woods, without mountains. We just can't hide. You remember Yugoslavia during the war. Tito could always retire to his mountains. In Poland they have the big woods. There is nothing like that in Hungary.

Mr. MORRIS. I wonder, did you run across the path of a—I suppose he is a former American now, I don't know, although he is still technically an American citizen—Mr. Field, Mr. Noel Field?

Mr. MARTON. I did, and I was very much interested in this person. As you remember, he was released in November 1954, and he asked for political asylum in Hungary just before Christmas 1954. Of course, my wife and myself, we tried to interview him and we couldn't. He declined.

Now, during the revolution you had much chance to find out things which otherwise you didn't know, and after the revolution I had a chance to see Mr. Field and interview him. This interview was printed in the press here, newspapers here, and I don't want to repeat it.

Mr. Field impressed me very much as a fine intellectual type, the type what I would like to term as an idealist Communist. Mr. Field is a Communist, as he himself said. He is a Communist with reservations, which means that he accepts the Marxist doctrine with the exception of the theory of violence, the theory that the workers' class has to seize power by force, using force. This he does not—this theory he does not accept.

Now, how a man can be a Marxist without accepting the theory in full, I do not know, but he is certainly one of them. My impression was that Mr. Field is a rather weak man. The strong character is Hertha, his wife. That was my impression. Field, as you know, came to Central Europe in the spring of 1949. He said that the reason of his visit in the satellite countries was because he wanted to write a book on them.

Now, he was arrested in the Prague airfield, airport, sometime in May and was brought to Budapest and used as a witness, what they call a witness, against those hundreds of Communists who were arrested during the anti-Tito purges in the spring of 1949.

Field first refused to cooperate, but he was broken in no time in the usual way, and later, when he learned in prison, some months

later, that one man, who was the chief of the so-called cadre department of the Communist Party and was No. 3 defendant in the Rajk case, was sentenced to death on the grounds of his testimony, he wanted to withdraw his testimony but it was too late. The man was hanged.

Now, Field and his wife were held for more than 5 years without trial, as you know, and then, in 1953-54, when the Imre Nagy government started to rehabilitate those Communists who survived those purges, when somebody remembered that the AVH, which is the Hungarian Secret Police, that they had this American couple rotting here somewhere in prison, then Mr. Field and his wife were brought back to the central prison of the AVH—actually, it is the same prison where I spent my 18 months—and then his case was brought up.

He spent there 8 months from the spring of 1954 to November 1954.

Now, Mr. Field, during those 8 months, testified and confessed that he is a good Communist. He also proved that he is a good Communist. As you know, Mr. Field was in Switzerland during World War II. He worked for a Quaker relief organization and also for—I don't know how, but for Mr. Dulles, Allen Dulles, who was the Chief of the United States Intelligence Service in Switzerland during World War II.

Now, these intelligence agencies in Switzerland decided during the war that they do not recognize certain German Communist underground groups as resistance organizations. I don't know the reason and I don't know what effect this had, but anyway Mr. Field as a good Communist opposed this decision. He couldn't do it singular but he opposed it and then when the decision was passed he found ways of informing these German Communist underground organizations about this decision made in Geneva and this information was of great value to these German Communist groups in the underground and they were very grateful to Mr. Field.

All this gratefulness could not save him from being arrested in 1949.

Now, what else about Mr. Field? When I met him I was sort of sorry for him. Everyone who was arrested and who spent some time in a Communist prison is inclined to be forbearing. But when he said—he told me that he spent the weeks of the Hungarian revolution—this was in December—in a hospital in Budapest. He was ill. And he was in bed throughout the weeks of the Hungarian Revolution. Then some minutes later when I asked him about his opinion on Kadar and the postrevolution regime, he said that he is convinced that Kadar had saved Hungary from what he called white terror, and I asked him how he knew that. He just told me earlier that he was in a hospital throughout the time of the whole revolution. Then he became hesitant and mumbled something that even in the sickbed of the hospital he felt it and that was the information he got from others.

Then we asked him—we, my wife and myself and a certain American colleague—what his plans are and he said he was very satisfied to live in Hungary and to stay there. He is not interested to go abroad. He has no passport, his American passport expired, and he finds life behind the Iron Curtain rather interesting.

In this respect I agreed with him, most interesting, indeed.



Now, I don't think that there is any doubt why he didn't come back. He knew perfectly well that he was involved in the Hiss case and as his brother did, Herman, his brother Herman got a nice sum from the Polish Government when he was released. So did Noel.

Senator HRUSKA. In what way was he interested in the Hiss case?

Mr. MARTON. He was involved in the Hiss case. That is what he said. It wasn't apparent to me what he meant. So it was obvious why he preferred to remain in Hungary.

Senator HRUSKA. Did he comment in any way on his activities in this country in that regard?

Mr. MARTON. I beg your pardon?

Senator HRUSKA. Did he comment in any way about his activities in the United States in that regard?

Mr. MARTON. No, he did not.

Mr. MORRIS. Well, Field had acknowledged that he was a Communist, then.

Mr. MARTON. He did; with reservations.

Senator HRUSKA. You say with reservations. With that one reservation that you had described, that is, that he did not subscribe to the use of force and violence.

Mr. MARTON. Yes.

Mr. MORRIS. I think I have no more questions, Senator. Do you plan to stay in the United States, Mr. Marton?

Mr. MARTON. I do. I hope to get citizenship in the United States. I and my family. And I am assigned to the Washington Bureau of the AP. We are happy in this country.

Mr. MORRIS. Now, there are several things, Senator. I think one thing we can mention here publicly, Mr. Marton, and that was, you did encounter some evidence of a very effective counterintelligence organization on the part of the Hungarian Communists, did you not, the AVH? I think you mentioned an episode about your acquiring a copy of the Hungarian budget.

Mr. MARTON. Yes.

Mr. MORRIS. I think you can tell us that without any breach of your own obligations, can you not, Mr. Marton?

Mr. MARTON. I think I can.

In the summer of 1954 I had a copy of the Hungarian budget which was passed by Parliament, already printed, a printed copy which, according to the Communist regulations and laws, is perfectly legitimate to possess.

Now, I dug it out for the AP, of course, on my dispatch, and then I handed it over to friends in the legation, diplomats, because they had no such copy. They gave it back to me about a week later, and when I was arrested and interrogated for weeks and weeks and weeks, I was told that the AVH secret police knows everything about that. They knew it, that I handed this copy of the budget to the Americans in the legation, and they even know what I didn't, that the legation used it, copied it, and sent it to Washington.

Mr. MORRIS. Did the American Legation use it, copy it, and send it to Washington?

Mr. MARTON. That I do not know. That, they told me, the AVH. When I came out, when I was pardoned, of course, the first thing I did was to go to my friends in the American Legation in Budapest



and warn them that I was told that they had really used it. So it was not a bluff.

Mr. MORRIS. So that the AVH knew more about it than you did?

Mr. MARTON. They certainly did. When I got back this copy about a week later, I was not interested in how they used it. I was only happy that I could be at their disposal. They were good friends, and there is always a swap of information between newspapers and diplomats, behind the Iron Curtain, and I assume anywhere else.

Mr. MORRIS. Senator, so the record will be perfectly clear on it, I would like to point out that there would be no inference that should be drawn that any one of these officers told the AVH.

Mr. MARTON. Oh, no.

Mr. MORRIS. Because the AVH could have had a microphone there.

Mr. MARTON. I am pretty sure they did. They had several other places. I vouch for my friends at the legation.

Senator HRUSKA. Anything further, Judge Morris?

Mr. MORRIS. Mr. Mandel reminds us in our preliminary session that you said you had an interview where the Soviet officers told you what great fear they had of the Hungarian people. Is that something you can tell us?

Mr. MARTON. Yes, certainly. That was rather interesting.

Mr. MORRIS. That is my last question, Senator.

Mr. MARTON. I had the opportunity to talk with a young Russian officer in a hotel which was sort of the headquarters of the western newspapermen in Budapest, and the man was rather intelligent. He spoke good German and he told me we are—no—he used first person singular. He said, I am scared. And I told him, of course you are scared. After all, your experience here, teen-age boys blowing up your tanks, et cetera. He said, Oh, no. That is not what I mean. I came only afterward. I came with the troops that were sent in after the revolution was through.

I asked him, what do you mean, you are scared? Why are you scared? A young man, a professional soldier, an officer of the glorious Red army. Why are you scared?

He said, oh, look, I am scared. I have a tank unit, four tanks. And they guard the four corners of the huge square in Budapest. And I am watching the people, women and children, day after day, how they just ignore my huge T-54 tanks, the huge muzzle of my guns. They go around it and they don't even look at me, and if they look, there is only hatred in their eyes, but usually they don't look. They just ignore us and that is what I just can't bear.

That is what he said. And I think that was a rather characteristic thing. They were scared. They had to be scared during the revolution and for many weeks after. After all, I don't think it happened ever before that boys and girls, 12 and 13 and 14, blew up their tanks. They are not safe in the tanks when the lid was open or closed.

Senator HRUSKA. Anything further, Judge?

Mr. MORRIS. No, Senator.

Senator HRUSKA. If not, on behalf of the committee, I want to extend our thanks to you for coming here, Mr. Marton, and for your cooperation as a witness.

Mr. MARTON. Thank you, Senator.

Mr. MORRIS. I would like to mention that we have four union officials subpoenaed for tomorrow morning and on Thursday we have scheduled Marion Zieliski. He was the section chief of the book division of the Polish Communist Government who defected on April 30, just 2 weeks ago. He will testify on Thursday.

Senator HRUSKA. Very well. The hearing is concluded.

(Whereupon, at 3:50 p. m., the hearing was concluded.)

# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

THURSDAY, AUGUST 22, 1957

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY ACT,  
AND OTHER INTERNAL SECURITY LAWS,  
OF THE COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to call, at 10:40 a. m., in room 424, Senate Office Building, Senator Roman L. Hruska presiding.

Also present: Robert Morris, chief counsel, and Frank Schroeder, chief investigator.

Senator HRUSKA. Very well, the committee will come to order. Who is our witness?

Mr. MORRIS. Mr. Ketcham is the witness.

Senator HRUSKA. Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KETCHAM. I do.

Mr. MORRIS. Mr. Chairman, we had scheduled this morning as the first witness Mr. Boris Morros, but the Department of Justice has asked Senator Eastland to defer his testimony at this time because he has several forthcoming appearances before a Federal grand jury. At the same time, Senator, in connection with the continuing inquiry into the activities of Noel Field, Ben Mandel, our staff director, has been working with witnesses here this morning getting some background on the activities of Noel Field while he was in the United States.

Mr. Ketcham has appeared for his organization here this morning and he has consented to give us something of what his own organization has learned about Mr. Field during his term of employment.

Will you give your full name and address to the reporter?

## TESTIMONY OF FRANK S. KETCHAM, ATTORNEY FOR UNITARIAN SERVICE COMMITTEE AND AMERICAN UNITARIAN ASSOCIATION

Mr. KETCHAM. My name is Frank S. Ketcham. I am an attorney in private practices in Washington and New York, a member of the Washington and New York bars.

I am appearing today on behalf of the American Unitarian Association and the Unitarian Service Committee.

Mr. MORRIS. That is the American Unitarian——

Mr. KETCHAM. American Unitarian Association.

Mr. MORRIS. Association, and the——

Mr. KETCHAM. Unitarian Service Committee.

As you know, Senator, the American Unitarian Association was founded 132 years ago. It is the principal organization in the Unitarian denomination serving the Unitarian churches and fellowship. The Unitarian Service Committee was originally set up in 1940 as a standing committee of the American Unitarian Association. In 1948, as a result of reorganization, the Unitarian Service Committee was set up as a separate corporation and since then has only acted with the American Unitarian Association in a spirit of fellowship but is not under the organization or direction of the association.

Senator HRUSKA. What was that year again that was incorporated?

Mr. KETCHAM. 1948. With perhaps 1 or 2 exceptions, the present officers and staff of both organizations had no personal connection with the Field episode.

Mr. MORRIS. That is the Noel Field episode?

Mr. KETCHAM. Yes. Those people have long since left. The testimony that I am giving this morning is based upon conversations with present staff people, members of the service committee—that is, officers—and officers of the American Unitarian Association. Also it is based upon an examination of some very, very voluminous files which I made myself in Boston on July 9.

Mr. MORRIS. You have made an extensive examination of voluminous files in Boston on July 9 of this year in connection with the request of the subcommittee to tell us how Noel Field operated while working with your organization.

Mr. KETCHAM. That is correct. When I say the files are voluminous, there is great intermixture of the Field situation along with their other records and the problem was of getting out the specific information.

Mr. MORRIS. Mr. Ketcham—at this point, Senator, may I, in order to put this a little more in perspective, bring a few things up to date at this time. In 1951, Hede Massing testified before the Senate Internal Security Subcommittee that she had recruited Noel Field into the Soviet apparatus in the mid-1930's—1934 and 1935, and she said that that recruitment was delayed for a while because Field had expressed a preference to work in an apparatus that Alger Hiss was running at that time, a Soviet apparatus that Alger Hiss was in. She testified she had resolved it when she and Hiss met one night and discussed the merits of the respective organizations. From that time on as far as she knew, Field worked with the Soviet apparatus.

On June 26, according to an Associated Press dispatch, Noel Field from Budapest issued a statement in which he denounced the United Nations report on Hungary as a slanderous falsehood, interspersed, at best, with misleading half truths. He went on to say of the U. N. committee:

Their real tears are reserved for their Hungarian brothers whose desperate attempts to restore their erstwhile rule of the Hungarian people have been foiled once and for all. Neither 400 nor 4,000 pages of dubious statements by a hundred or 10 times that number of defectors can hamper the forward march of Hungary and other countries of the Socialist camp along the highroad toward communism which all nations will ultimately follow in their own manner and their own good time.

which I think makes very clear where Mr. Field stands at this time.



Further, we have, in our conversations with Josef Swiatlo—a Polish security official who defected to the West a few years ago—he has told me, Senator, that when he interrogated Noel Field—he was one of the captors of Field when he was on the Communist side—at that time Field said, or rather Swiatlo told us that Field protested his arrest on the grounds that “Well, haven’t I been a good Communist all along,” and “Why should you arrest me?”

He told that to Mr. Swiatlo, and Mr. Swiatlo has told us that.

Senator HRUSKA. When did the arrest occur?

Mr. MORRIS. In 1949.

Mr. Ketcham, will you proceed?

Mr. KETCHAM. Noel Field joined the staff of the Unitarian Service Committee in the spring of 1941. His job was to administer a program of medical relief in southern France.

At the time of his employment, the director of the service committee—that is the then director—submitted a statement to the full committee setting forth the details of Field’s education and his linguistic abilities and showing he had held certain positions.

The positions he held are to me extremely interesting in view of the various other circumstances that have become known. He was a social worker under the Massachusetts Department of Mental Hygiene from 1925 to 1926. He was in the Department of State in 1926–36, including the Swiss and League of Nations desks, 1927–30. He was the assistant secretary of the American delegation, London Naval Conference in 1930. He was a member of the Disarmament Commission in December 1930–35. He was an assistant to Norman Davis, Naval Conference, in London in 1934.

He was secretary of the American delegation to the London Naval Conference in 1936. He was a member of the Disarmament Section of the League of Nations in 1938–40, which included secretarial assistance to various organs of the Disarmament Conference. He was a secretary of the Third Committee of League Assembly. He was secretary to the League Military Commission for the evacuation of foreign soldiers in Spain—Barcelona, Valencia, Madrid, and Perpignan—in October 1938 to March 1939. He assisted in the League foreign aid work in the winter of 1940. His contract was rescinded by the League because of the war, World War II in October 1940. In the report of the director, it also appeared that Field wanted to join the service committee because of the experience he had had in Spain and in order to have an opportunity to change to another sphere of activity where he could contribute more directly to the relief of human suffering than had been possible through the League Disarmament Division.

The director also stated that Mr. Field was well known to Mr. Hiram Bingham, the American consul in Marseilles who had said Field was a man of special ability and the committee could not find a better man anywhere.

Mr. MORRIS. This is up to 1941.

Mr. KETCHAM. Yes; you can see from this, Senator, that Mr. Field came very highly recommended to the service committee.

In addition to that, I am informed that his personality is magnetic, that he could sell most anything on the basis of having to do with human suffering and human action.

He displayed an intensely idealistic interest. He also had another facet of his personality in that he seemed to feel that his way of doing

things was about the only way to do things and he just could not and did not brook disagreement with him.

That becomes clear, as I will show later on in my testimony.

Mr. MORRIS. Did the service make inquiry of the State Department for instance for recommendations as to his character and reputation?

Mr. KETCHAM. Not at this time, Judge Morris, but at a later date. That is if they did make such an investigation, the files don't reveal it and I have no information about it.

Mr. MORRIS. Thank you.

Mr. KETCHAM. Herta Field, his wife, the wife of Noel Field was employed with him at the same time and their combined salaries, together with room and board, amounted in the aggregate to about \$150 a month.

It seems obvious that he was not getting into this job for any monetary considerations.

He continued in the employ of the service committee along with Mrs. Field until late in the year of 1947. He was relieved of his duties on September 30, 1947. His compensation, however, continued until December 31, 1947. I believe we had some sort of a leave situation policy. The same circumstances applied to the termination of Mrs. Field's employment which ended exactly the same time.

During the entire period of the Fields' employment, he was assigned or they were assigned to work in offices of the committee abroad, principally in Geneva and Paris, as director for Europe. He was in charge of the day-to-day operations in Europe and made several visits to the United States. When I say he, the files seem to indicate pretty strongly that it was they and sometimes I had some questions as to exactly who was the head man in the Field team.

Mr. MORRIS. When you say "they," you mean Noel and Herta?

Mr. KETCHAM. Yes.

It appeared to the members of the committee staff that he was deeply interested in the individual people and felt a great responsibility to do and have the committee do everything possible to alleviate human suffering wherever it was encountered.

That policy is the policy and program of the service committee, which is to attempt to do anything in any portion of the world to attempt to help human action and, as you know, Senator, the service committee as of today has operations practically all over the world.

As the war progressed—mind you, this is going on during the war and during the occupation of France by the Nazis, and the statements in the file show that case problems in the various countries became more and more complex. It was the purpose of the service committee to render service without regard to race, color, creed, or nationality of victims of Nazi aggression. It was believed by the committee that the Fields defended and tried to carry out this purpose regardless of the mounting complications which arose because of the conflicting political and ideological beliefs in the countries where the committee was operating. During the year 1946—and this is after the French underground had taken a pretty active role against the collaboration and there was great confusion as you will recall, in France as to who was who, and who was what and who was doing what.

It seems also pretty clear that probably the Communists were very active in the French underground, which would have been the situation.

Mr. MORRIS. Mr. Ketcham, just by way of amplifying what you are saying, would you say from surveying, looking over these files as you did here on July 9 of this year, was there anything to indicate, anything to support the charge that he was running an underground railroad for the Communists on the European Continent at that time in connection with this work?

Mr. KETCHAM. There were some statements made by people to members of the service committee. There were a lot of accusations which, as I started to say, started around 1946. That is when the central committee of the service committee—which is the steering committee in this country—in Boston, began to receive definite information that indicated that Field might be showing favoritism toward Communists in the service committee relief work.

Mr. MORRIS. In carrying out the service committee's relief work what was he doing, was he getting people out?

Mr. KETCHAM. As near as I can tell from the files, it was sort of a welfare program to provide food and medical assistance and all that, but it is not clear exactly what he was doing.

That was one of the problems that the committee had in this country of finding out what was going on. He and Herta Field were pretty much free agents. They were in charge and about all they got from this country was the necessary wherewithal to do what they were doing.

Senator HRUSKA. Wasn't part of the program of the service committee the placing of displaced persons and escapees and refugees into other parts of the world than France and Italy and wherever they happened to be?

Mr. KETCHAM. It was. But I don't know what he had to do with it.

Senator HRUSKA. Wasn't their headquarters for a while in Lisbon for that purpose for the purpose of getting people out of Europe?

Mr. KETCHAM. I believe so.

Senator HRUSKA. You don't know whether he was stationed there and active in that phase of the world?

Mr. KETCHAM. Something in the files indicated he did make some trips to Portugal. Whether he was running an underground or not I don't know. He certainly could have.

Mr. MORRIS. The records show that there were complaints made to the service that he was partial to the Communists?

Mr. KETCHAM. Yes. There is information submitted to the service committee in the form of allegations that Field was a Communist and a member of the Communist Party, and that I can say upset them greatly so they did everything they possibly could to check on this information and the rumors that had been brought to their attention and there were many of them.

In the minutes of a meeting of the committee in October 1946 it is disclosed that the committee made every effort to secure the cooperation of the State Department in getting accurate information with respect to these charges.

Mr. MORRIS. When was that?

Mr. KETCHAM. 1946. The minutes of the meeting show that the personnel of the service committee in this country had been asking the State Department, "What about Noel Field?" "We have heard these allegations, we would like to know what you know about them." I would say they got nothing but pretty favorable replies about Field.



Mr. MORRIS. The State Department kept giving them favorable reports about Field as late as 1946?

Mr. KETCHAM. Yes.

Senator HRUSKA. Were those reports from the State Department in letter form or by way of memoranda of personal telephones and interviews?

Mr. KETCHAM. They were memoranda of contact made by the personnel of the service committee with people in the State Department who should have known about these matters. There was no official communication from the State Department at all on that.

Mr. MORRIS. Do you know any of the individuals in the State Department who made these favorable recommendations?

Mr. KETCHAM. I don't know offhand.

Mr. MORRIS. Could you check that for us?

Mr. KETCHAM. I will.

Senator HRUSKA. Did the memorandums reveal the identity of the individuals involved in these inquiries both in the State Department and on the committee?

Mr. KETCHAM. Yes.

In 1946, as a result of the committee's concern about Field they employed Dr. Raymond Bragg who was one of the most prominent Unitarian and respected Unitarian ministers in the denomination. He was employed as director of the service committee. In other words he was put over Fields and he was sent to Europe for the express purpose of securing the facts on the work in Europe with a view to determining whether the criticism against the committee had foundation and whether Noel Field should be returned. The records by implication show that when Mr. Bragg returned to this country he was quite concerned about what was happening in Europe.

He was able to get no information that Field was a Communist or following the Communist Party line, whatever that was at the time. But there was pretty much evidence that many of the people or the large bulk of the people who were being held were Communists, but you could say that was understandable since they were the ones who needed the help most. They were the poorer people and also probably had been the most active against the collaborationists. The Bragg trip back caused more consternation in the service committee in Boston.

So they sent a special committee of which the chairman was the late Dr. William Emerson—whom you know, I believe, Senator—a very highly respected individual. He went over to Paris along with a couple of other people to check on the activities of Field and the foreign staff.

The files indicate that the Fields put on quite a production for them. He took them around to the central office of the Paris commission of the service department. It was in very humble surroundings and they had a very humble meal and Dr. Emerson was very much impressed by the humility of the operation. That is the essence of the report.

Mr. MORRIS. He was an ascetic living man?

Mr. KETCHAM. Yes; at no time was the service committee able to obtain any information that could be substantiated that Field was a Communist or a member of the Communist Party or that he was using the service committee's relief program for the special benefits of Communists.



Upon the completion of these two investigations, the committee became convinced that, whether the accusations and rumors could or could not be substantiated, he had to go, that his continued employment was detrimental to the operations of the service committee and detrimental to the high respect and reputation of the Unitarian denomination. Field was advised of the various accusations and rumors that were being made against him and always insisted that they were without foundation.

As a matter of fact, as I said earlier in my testimony, he seemed to be the kind of person who couldn't admit a mistake. He would seem—and I may be a little psychiatric—to have a pronounced persecution complex which would sort of be in keeping with the type of mind who would issue the statement with respect to Hungary. The whole world is wrong but not Noel and Herta Field.

I want to accentuate also that the Unitarians, being as they are, always interested in seeing the good in human beings, they tried and they tried desperately to think of Field and believe in him and believe in his principles as they were enunciated. This was not a light decision that was made by them to terminate his employment.

I am not sure that some of the people who were impressed by his personality are still able to believe that he issued that statement in Hungary, but that is my own impression and nothing in the record indicates it.

Accordingly, in September 1947, the decision was made by the service committee unanimously to terminate the Fields' services. They did it on the basis of a serious budgetary problem which had been encountered and I suspect that the Fields' activities had made this program of the Unitarians unpopular so that the funds were not forthcoming from the denominations who supported it.

Accordingly they were both dismissed as I mentioned earlier and then there is no more in the records.

Senator HRUSKA. What did the minutes of that meeting show where he was dismissed? Have you summarized that?

Mr. KETCHAM. Because of a budgetary problem, they did not think they could continue the operation any more and Field was notified.

Senator HRUSKA. And there was no indication that they went beyond that in assigning grounds?

Mr. KETCHAM. No.

Senator HRUSKA. Was there anything in the memos or in the correspondence in the files which might have indicated there were additional grounds?

Mr. KETCHAM. As I stated earlier—

Senator HRUSKA. I mean in that immediate period of time in October 1947.

Mr. KETCHAM. Certainly it was considered.

Mr. MORRIS. Did anyone stand out as people supporting him in references, speaking very well of him and speaking of him highly? Does anyone stand out in your review of the summary as having done that?

Mr. KETCHAM. The one I mentioned was the one that was most impressive to me was the Bingham recommendation and also the strong recommendation by the then director of the service committee based upon his interviews with people. But whom he talked with, I don't know.

Mr. MORRIS. I have no questions.

Senator, the point that this can add to our record is that here we have a man who, according to sworn testimony before the subcommittee and while he was in the State Department's Western European Division, was recruited into Soviet espionage. Subsequent to that we have learned from Mr. Swiatlo that he has acknowledged—this man Field has acknowledged to Swiatlo, his jailer, that he had been a good loyal Communist at the time of his arrest in 1949. We have seen that a man like this can hold high office in the United States and how he can deceive, as the witness have shown today, by his ascetic living, his personal and convincing appearance and demeanor, how he can operate and how he can carry out the work of Communist activities rather successfully and almost without interruption in connection with that work.

And for that reason, Senator, we have presented today the testimony of Mr. Ketcham who, qualified as he is by having gone through the records of the Unitarian service, has given us this insight into the activity of Mr. Field.

And your appearance here today is after consultation with the Unitarian service committee?

Mr. KETCHAM. Specifically authorized, Senator.

Mr. MORRIS. Senator, we have last heard that Noel Field is now the head of the translating unit in Budapest for the Communists. That is the last thing we heard.

Has Mr. Field ever communicated with any members of the service committee or have you been in touch with him since his dismissal? Do the records show that?

Mr. KETCHAM. The records show no communication.

Senator HRUSKA. Anything further?

Mr. MORRIS. That's all, Senator.

Senator HRUSKA. If not, we want to thank you, Mr. Ketcham, for your appearance here and your contributions. May I suggest, if anything further as a result of this hearing may develop by way of disclosures, that you keep in touch with Mr. Morris? Thank you very much for coming.

Mr. KETCHAM. I want to put in the record that the Unitarians are intensely interested in cooperating with the activities of our Government and anything to get at Communists.

Senator HRUSKA. I'm sure that's right.

The meeting is adjourned.

(Whereupon, at 11:10 a. m., the hearing was adjourned.)

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## O

# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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## HEARINGS

BEFORE THE

SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

FIRST SESSION

ON

SCOPE OF SOVIET ACTIVITY IN THE  
UNITED STATES

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MAY 16, JUNE 18, AND JULY 23, 1957

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